

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-16 Financial Audit

USAID's Media Development in Afghanistan
Program: Audit of Costs Incurred by Private
Agencies Collaborating Together, Inc.



NOVEMBER
2014

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 27, 2006, the U.S. Agency for International Development (USAID) awarded a cooperative agreement, initially funded in the amount of \$6 million, to Private Agencies Collaborating Together, Inc. (Pact) for the Media Development in Afghanistan Program. This program was designed to ensure that Afghanistan has an independent, pluralistic, and trustworthy media providing accurate news and information on a broad range of local and national issues. The program also aimed to reinforce USAID investment in Afghanistan media by assisting newly established media outlets to become mature, sustainable businesses and organizations. Subsequent modifications to the agreement increased the funding to \$20,644,984.

SIGAR's financial audit, performed by Kearney & Company, P.C. (Kearney), reviewed \$20,576,207 in expenditures charged to the agreement from August 1, 2006 through September 30, 2011. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Pact's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Pact had taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Pact's Special Purpose Financial Statement. See Kearney'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, we oversaw the audit and reviewed its results. Our review disclosed no instances where Kearney did not comply, in all material respects, with U.S. generally accepted government auditing standards.

November 2014

USAID's Media Development in Afghanistan Program: Audit of Costs Incurred by Private Agencies Collaborating Together, Inc.

SIGAR 15-16-FA

WHAT THE AUDIT FOUND

Kearney & Company, P.C. (Kearney) identified three internal control deficiencies and two instances of noncompliance in its audit of costs incurred by Private Agencies Collaborating Together, Inc. (Pact). Pact lacked documentation to support its travel costs and its subcontracting costs. Specifically, Pact did not provide or retain adequate supporting documents in 59 instances of costs incurred in the Media Development in Afghanistan Program. The lack of adequate supporting documentation in these instances increases the likelihood that there are other instances of unsupported costs. The unavailability of records complicates oversight of the cooperative agreement and is not consistent with applicable record retention requirements.

As a result of the internal control deficiencies and instances of noncompliance, Kearney identified \$250,155 in total questioned costs, consisting of \$247,826 in unsupported costs—costs not supported by adequate documentation or that did not have required prior approval—and \$2,329 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Travel, transportation, and per diem	\$0	\$2,101	\$2,101
Subgrants and subcontracts	\$2,329	\$245,725	\$248,054
Totals	\$2,329	\$247,826	\$250,155

Kearney identified three findings in previous audits of Pact's subcontractor, Internews, that could have a material effect on Pact's Special Purpose Financial Statement. Kearney concluded that adequate corrective action had been taken on all three findings.

Kearney issued a disclaimer of opinion on Pact's Special Purpose Financial Statement because Pact was unable to provide sufficient and appropriate audit evidence to substantiate costs incurred for a material portion of the sub-grants line item in the financial statement. Because a majority of the total costs incurred were attributable to this line item, Kearney was unable to form an opinion on the financial statement taken as a whole.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the USAID Mission Director to Afghanistan:

- 1. Determine the allowability of and recover, as appropriate, \$250,155 in questioned costs identified in the report.**
- 2. Advise Pact to address the report's three internal control deficiencies.**
- 3. Advise Pact to address the report's two instances of noncompliance.**



SIGAR

**Office of the Special Inspector General
for Afghanistan Reconstruction**

November 5, 2014

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

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

We contracted with Kearney & Company, P.C. (Kearney) to audit the costs incurred by Private Agencies Collaborating Together, Inc. (Pact) under a U.S. Agency for International Development (USAID) cooperative agreement to support the Media Development in Afghanistan Program. The audit performed covered \$20,576,207 in expenditures incurred from August 1, 2006 through September 30, 2011.¹ The contract required the audit to 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 USAID Mission Director to Afghanistan:

- 1. Determine the allowability of and recover, as appropriate, \$250,155 in questioned costs identified in the report.**
- 2. Advise Pact to address the report's three internal control deficiencies.**
- 3. Advise Pact to address the report's two instances of noncompliance.**

The results of Kearney's audit are detailed in the attached report. We reviewed Kearney'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 Pact's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Pact's internal control or compliance with the cooperative agreement, laws, and regulations. Kearney is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Kearney did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-027)

¹ USAID awarded this cooperative agreement (306-A-00-06-00519-00) to Pact to ensure that Afghanistan has an independent, pluralistic, and trustworthy media providing accurate news and information on a broad range of local and national issues.

**OFFICE OF THE SPECIAL INSPECTOR
GENERAL FOR AFGHANISTAN
RECONSTRUCTION**

Private Agencies Collaborating Together, Inc.

*Financial Audit of Costs Incurred under
Cooperative Number 306-A-00-06-00519-00
Media Development in Afghanistan Program
(for the Period August 1, 2006 to September 30, 2011)*

June 13, 2014



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Kearney & Company's TIN is 54-1603527, DUNS is 18-657-6310, Cage Code is 1SJ14

TRANSMITTAL LETTER

August 25, 2014

Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

To the Special Inspector General for Afghanistan Reconstruction:

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) is pleased to submit this Audit Report, as required under Contract Number GS-23F-0092J, Task ID05130083003, for Private Agencies Collaborating Together, Inc. (currently Pact, Inc. [Pact]). The Audit Report is in regard to Pact Cooperative Agreement Number 306-A-00-06-00519-00 for Media Development in Afghanistan Program (MDP) for August 1, 2006 to September 30, 2011.

We appreciate the opportunity to provide you with our report. When preparing the report, we considered comments, feedback, and interpretations provided by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR), both orally and in writing, throughout the audit Planning, Fieldwork, and Reporting Phases of this engagement.

Thank you for providing us with the opportunity to assist SIGAR and conduct the financial audit of the agreement noted above. If any additional information is needed, please do not hesitate to contact me at (703) 931-5600.

Sincerely,



David Zavada, CPA, Partner
Kearney & Company, P.C.

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EXECUTIVE SUMMARY

Background

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) to perform an audit of the Special Purpose Financial Statement (SPFS) of a cooperative agreement awarded to Private Agencies Collaborating Together, Inc. (currently Pact, Inc. [Pact]) by the United States Agency for International Development (USAID) for the Media Development in Afghanistan Program (MDP), specifically cooperative agreement No. 306-A-00-06-00519-00 (referred to as “cooperative agreement” or “agreement”).

USAID awarded this cooperative agreement to Pact to ensure that Afghanistan has an independent, pluralistic, and trustworthy media providing accurate news and information on a broad range of issues in both local and national contexts. The program also aimed to reinforce USAID investment in Afghanistan media by assisting newly established media outlets to become mature, sustainable businesses and organizations. Per the cooperative agreement, the program’s anticipated outcomes were as follows:

1. “Assist with the promotion, in society and codification in law, of a legal regime protecting independent media. Legal and social norms protect and promote free speech and access to public information;
2. Independent media are well-managed businesses. Enhance the managerial, creative and business development of independent media outlets, which will allow editorial independence and market sustainability;
3. Promote the formation of trade and professional associations to promote the interests of independent media;
4. Promote journalism meeting professional standards of quality. Increase the capacity and professional maturity of independent non-partisan journalists. Through the associations, promote the development of codes of ethics and other professional standards mechanisms;
5. Promote participation of women and youth in the journalism profession. Promote programming that covers media and youth issues;
6. Foster in government respect for the role independent media plays in a free society and support the training of officials in media interaction techniques;
7. Promote media advocacy for reform in key USAID reform areas, especially with regard to transparency, accountability, anti-corruption and other key areas of reform; and
8. Enhance the skills of media technicians. Provide on-the-ground technical consulting capacity for existing media outlets and to provide guidance on the establishment of new media outlets.”

The MDP agreement was awarded to Pact for the period of August 1, 2006 through July 31, 2009. The agreement was financed through a letter of credit mechanism with an initial amount of \$6,000,000, covering the base and all option periods. Subsequent modifications increased the funding to \$20,644,984 and extended the period of performance to September 30, 2011.

Pact entered into a subagreement with an implementing partner, Internews, to execute the objectives of the MDP cooperative agreement. The original subagreement with Internews awarded \$5,780,002, as budgeted in Pact's cooperative agreement with USAID. Subsequent modifications to the subagreement awarded Internews a total of \$19,904,927. Internews received over 96 percent of the agreement funds. The subagreement budget was itemized into the following costs categories: Personnel, Fringe, Consultants/Contractual Services, Travel and Transportation, Non-expendables, Other Direct Costs, and Indirect Costs. All of these cost categories rolled up to the Sub-grants, Subcontracts line item of the SPFS.

Objectives, Scope, and Methodology

Objectives

The specific audit objectives of this financial statement audit were to:

- Express an opinion on whether the SPFS for the award presents fairly, in all material respects, the 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 award and generally accepted accounting principles or other comprehensive basis of accounting;
- 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;
- 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 non-compliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred; and
- 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 SPFS.

Scope

Our audit of the SPFS covered the following USAID agreement awarded to Pact:

- No. 306-A-00-06-00519-00: MDP, for the period of August 1, 2006 through September 30, 2011.

The period of performance of our audit began with the Entrance Conference held on February 11, 2014, and fieldwork ended with the Exit Conference held on June 11, 2014.

As the prime recipient of funding under the cooperative agreement, Pact was responsible for the SPFS under audit. Internews, as Pact's implementing partner, received over 96 percent of the total agreement funding. Consequently, audit procedures were applied to both Pact and Internews, as deemed warranted.

Our review of indirect costs was limited to determining whether the indirect rates per the Negotiated Indirect Cost Rate Agreement (NICRA) were properly applied to the direct costs, subsequently reported on the SPFS, correctly calculated, and appropriately charged to the United States Government in accordance with the cooperative agreement. Our procedures were designed to test the application of the unaudited indirect rates in the preparation of the SPFS. The scope of our audit did not include procedures to verify the material accuracy of Pact's NICRA, indirect cost rates, and fixed handling rates. Therefore, such information has not been subject to the auditing procedures. Accordingly, we do not express an opinion or provide any assurance on the indirect rates.

Our audit was conducted for the purpose of forming an opinion on the SPFS in accordance with the SPFS presentation requirements in Note 1. Therefore:

- The Transmittal Letter and the information presented in the Table of Contents, Executive Summary, and Management's Responses to the findings are presented for the purpose of additional analysis and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied during the audit of the SPFS, and, accordingly, we do not express an opinion or provide any assurance on it; and
- The scope of our audit does not include procedures to verify the efficacy of the MDP, and, accordingly, we do not express an opinion or provide any assurance on it.

As discussed in the Summary of Results below, the scope of our audit was limited, as management did not provide sufficient appropriate audit evidence in the form of adequate accounting records for a material portion of our sampled transactions.

Methodology

Our audit included:

- Obtaining an understanding of Pact's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment; and
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the SPFS.

Our audit approach enabled us to redefine the audit scope as necessary and consisted of the following four phases:

Planning Phase: Kearney developed an understanding of Pact, Internews, and the SPFS by performing the following:

- Analyzing and comparing booked to billed costs;
 - Reviewing for changes in estimation and allocation methodologies and/or processes;
 - Reviewing the financial statements and footnotes;
 - Holding preliminary discussions with Pact and Internews personnel concerning their methods and processes;
-

- Identifying significant costs;
- Reviewing indirect rate applications; and
- Identifying significant sub-awards.

Kearney also obtained the status of the corrective actions taken based on prior audits for follow-up in subsequent phases.

Internal Control Understanding/Evaluation Phase: Kearney performed procedures to obtain a sufficient understanding of the controls and compliance requirements in place over each of the cost categories to be tested within the SPFS. The results of this phase were considered in determining the nature and extent of procedures to be performed in the Testing Phase.

Testing Phase: This phase consisted of validating the universe of transactions per the general ledger against the total for each cost category of the SPFS, sampling the Sub-grant, Subcontracts line item transactions using a statistical sampling methodology, and sampling the other cost categories using a non-statistical sampling methodology. The Government Accountability Office Financial Audit Manual, Section 480, states: “In statistical sampling, the auditor uses probability theory to determine sample size, select the sample, and evaluate the results for the purpose of reaching a conclusion about the population.” Kearney performed multipurpose testing by applying tests of controls, compliance, and balances (test of details) on the sampled transactions. Kearney requested sufficient appropriate audit evidence that would provide reasonable assurance as to whether the SPFS is free of material misstatement and to determine whether costs claimed are allowable, allocable, and reasonable. This phase also consisted of testing costs incurred for the effectiveness of controls and compliance with the agreement and applicable laws and regulations that could have an impact on the SPFS.

Wrap-up and Reporting Phase: In this phase, Kearney provided Pact’s management with an appropriate Management’s Representation Letter and performed wrap-up procedures designed to assess the results. This phase also consisted of issuing a draft report for Pact response, and other required communications with management.

Summary of Results

Opinion

Kearney issued a disclaimer of opinion on the SPFS. Pact was unable to provide sufficient appropriate audit evidence to substantiate costs incurred for a material portion of the Sub-grants, Subcontracts line item, thus restricting the scope of our audit. Since a majority of the total costs incurred were attributable to this line item, this restriction prevents us from forming an opinion on the financial statement taken as a whole. See also the Independent Auditor's Report section of this document.

Questioned Costs

There are two categories of questioned costs: ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable, prohibited by the

agreement or applicable laws and regulations, or not agreement related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations. Kearney noted an unburdened total of \$2,329 of ineligible costs and an unburdened total of \$247,826 in unsupported costs. As such, Kearney noted total questioned costs of \$250,155, which are reported at the unburdened amounts by cost category, as shown in Table 1 below.

Table 1 – Total Questioned Costs

Cost Category	Ineligible Costs (\$)	Unsupported Costs (\$)	Questioned Costs (\$)	Schedule of Findings and Responses Reference
Travel, Transportation, and Per Diem	0	2,101	2,101	MDP NFR 2014-1
Sub-grants, Subcontracts	2,329	245,725	248,054	MDP NFR 2014-1 MDP NFR 2014-2 MDP NFR 2014-3
Total	2,329	247,826	250,155	

Internal Control Findings

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 combination of deficiencies, in internal control where there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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. *Government Auditing Standards* requires auditors to report material weaknesses and significant deficiencies in the Report on Internal Control. A summary of reportable internal control findings is as follows:

Kearney reported one material weakness as follows:

1. Inadequate Supporting Documentation (MDP NFR 2014-1).

Kearney reported two significant deficiencies as follows:

1. General Ledger Management and Reporting Issues (MDP NFR 2014-2); and
2. Inadequate Procurement Practices (MDP NFR 2014-3).

Compliance Findings

As part of our audit of Pact’s SPFS, we performed tests to determine compliance with provisions of the agreement and other laws and regulations that have a direct and material effect on the SPFS. Two of the findings discussed in the Internal Control Finding section above had an aspect

of non-compliance with the Code of Federal Regulations (CFR); thus, we identified two instances of non-compliance. The sections of the CFR in question are cited within the criteria of the findings (MDP NFR 2014-1 and MDP NFR 2014-3).

Review of Prior Findings and Recommendations

Kearney noted that all relevant prior audit reports pertained only to Internews given the amount of funding that Internews received. Kearney identified three findings stated in prior audit reports from Internews that could have a material effect on the SPFS. Kearney inquired about whether Internews had implemented corrective actions plans (CAPs) to address the findings, and subsequently determined the status and adequacy of those corrective actions. Per our review of the prior-year reports and CAPs, Kearney concluded that Internews has taken adequate corrective action for all three findings. See Appendix A of this report for a summary of the prior audit findings and the status of each.

Summary of Pact's Response to Findings

Pact provided a response to the findings contained in this report, which was included as Appendix B of this report. These responses were provided directly by Pact management and have not been altered or updated in any way by Kearney. Kearney's evaluation of Pact's responses is included in Appendix C of this report.

SPECIAL PURPOSE FINANCIAL STATEMENT

Private Agencies Collaborating Together, Inc.				Auditor's Questioned Costs		
Special Purpose Financial Statement for Costs Incurred under Media Development in Afghanistan Program Cooperative Agreement No. 306-A-00-06-00519-00 For the period of August 1, 2006 through September 30, 2011						
	Budget (\$) (Audited)	Actual (\$) (Audited)	Notes (Audited)	Ineligible (\$)	Unsupported (\$)	Auditor's Notes
Revenues:						
306-A-00-06-00519-00	20,644,984	20,576,193				
Interest	-	-				
Total Revenues	20,644,984	20,576,193	3			
Costs Incurred:						
Salaries	68,701	57,899		0	0	
Fringe Benefits	17,589	18,508		0	0	
Travel, Transportation, and Per Diem	-	22,926	4	0	2,101	A
Technical Consultants	100,316	77,390		0	0	
Other Direct Costs	128	135		0	0	
Sub-grants, Subcontracts	19,904,927	19,890,829	5	2,329	245,725	B
Workshops	19,975	19,016		0	0	
Indirect Costs	533,348	489,504		0	0	
Total Costs Incurred	20,644,984	20,576,207		2,329	247,826	
Outstanding Fund Balance		(14)	3	(2,329)	(247,826)	
The accompanying notes are an integral part of this financial statement.						

Pact, Inc.
Management's Notes to the Special Purpose Financial Statement
(Audited)

Note 1: Status and Operations

Pact, Inc. (Pact) is an international not-for-profit corporation whose mission is the strengthening of civil societies around the world in order to achieve social, economic, and environmental justice. Pact provides high-quality capacity building and grants management services to grass-roots organizations mainly in Asia and Africa. Pact's headquarters is located in Washington, DC and its local field offices are located in 22 countries. Through strategic approaches including local-based capacity development, good governance, and utilizing market actors, Pact makes programmatic impacts in the areas of health, natural resource management, and livelihoods.

Pact and Internews (as implementing partner) submitted a technical proposal entitled Afghanistan Independent Media on May 22, 2006 under the Leader Award Cooperative Agreement No. GEG-A-00-01-00005-00. Pact won the bid, and an associate award was issued to Pact on July 27, 2006: Cooperative Agreement No. 306-A-00-06-00519-00.

A subagreement was provided by Pact to Internews, in the amount of Five Million Seven Hundred Eighty Thousand and Two Dollars (US \$5,780,002), to implement its Media Development in Afghanistan as described in Attachment B "Program Description" to the Award. This subagreement was made under the authority provided to Pact under its Leader Award entitled "Civil Society Strengthening." The Internews subagreement was effective, and an obligation of One Million Nine Hundred Fourteen Thousand Five Hundred and Seven Dollars (U.S. \$1,914,507) was made as of August 1, 2006.

The initial subagreement was followed by 11 subagreement modifications, the last being effective December 31, 2011. The cumulative monetary effect was an increase of obligation to a final total of \$19,890,829.

Pact's primary role under the associate award was the oversight of Internews in their efforts to achieve the subagreement's stated objectives as outlined in the program description. Pact's involvement was limited to the elements listed below:

- Approval of the Recipients annual implementation work plans, performance monitoring, and evaluation plans, including amendments thereto, as outlined in the Program section entitled "Program Implementation;"
- Approval of specified key personnel; and
- Approval of Recipient's selection of sub-awards.

Note 2: Summary of Significant Accounting Policies

a) Basis of Accounting

The Special Purpose Financial Statement reflects the revenues received and expenses incurred under the Agreement. It has been prepared on an Other Comprehensive Basis of Accounting (OCBOA).

b) Foreign Currency Transactions

Monthly program expenses that were incurred in foreign currency were translated into US Dollars at the rate of exchange in effect during the month of the transaction. Gains and losses from foreign currency transactions were immaterial on the direct expenses for this Agreement. Subrecipient Internews reported results to Pact in US Dollars for inclusion in program financials.

c) Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations including USAID Acquisition Regulations. Unsupported costs are those costs which no or inadequate supporting documentation was provided.

Note 3: Revenue

As of September 30, 2011, Pact has received \$20,576,192.94 in payments from USAID under the Agreement. This amount is \$14.28 less than the last reported Costs Incurred. This small difference is due to a Fiscal Year (FY) 2012 Negotiated Indirect Cost Rate Agreement adjustment. The remaining amount will be returned to USAID.

Note 4: Travel, Transportation, and Per Diem

Travel and Transportation expenses relate to International Consultant travel. Per Pact's Chart of Accounts, these expenses are reported under the "travel" category.

Note 5: Sub-grants, Subcontracts

This line represents the one subagreement made under the authority provided to Pact under its Leader Award 00 entitled "Civil Society Strengthening" that was formalized in Cooperative Agreement No. 306-A-00-06-00519-00. The Internews subagreement was effective, and initial obligation of One Million Nine Hundred Fourteen Thousand Five Hundred and Seven Dollars (US \$1,914,507) was made as of August 1, 2006.

The initial subagreement was followed by 11 subagreement modifications, the last being effective December 31, 2011. The cumulative monetary effect was an increase of obligation to a final total of \$19,890,829. This amount represents the majority of the funding provided to Pact under Cooperative Agreement No. 306-A-00-06-00519-00.

Auditor's Notes to the Questioned Costs

In addition to the Notes to the Special Purpose Financial Statement presented above associated with the Media Development in Afghanistan Program (MDP) Special Purpose Financial Statement (SPFS), which are the responsibility of Private Agencies Collaborating Together, Inc.'s (Pact) management and identified with numerical notations, Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) has included the following alphabetical notations to facilitate understanding.

Questioned costs are those costs that are questioned by the auditor because of an audit finding potentially related to:

- 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;
- Costs are not supported by adequate documentation; and
- Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.

There are two categories of questioned costs: ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable, prohibited by the agreement or applicable laws and regulations, or not agreement related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Questioned costs reported on the SPFS are unburdened, i.e., without the effects of associated indirect costs or fees. Questioned costs reported on the SPFS are actual costs incurred and not the result of any projection of error based on statistical sampling.

Questioned costs are based on the results of our fieldwork, which were subject to a scope limitation, as described in our report. The questioned costs reported should be read in conjunction with the Independent Auditor's Report.

Note A: Travel, Transportation, and Per Diem Questioned Costs

The agreement did not separately budget for consultants and their associated travel costs. Consultants' travel costs were a part of the total budgeted for consultants. Since consultants' travel costs were not separately budgeted, Pact did not include a budgeted amount on their SPFS. However, Pact reported these costs separately to align with their chart of accounts (Note 4).

Kearney noted unsupported costs of \$2,101 due to insufficient supporting documentation provided. See Schedule of Findings and Responses finding MDP NFR 2014-1.

Note B: Sub-grants, Subcontracts Questioned Costs

Kearney noted ineligible costs of \$2,329 due to:

- Inadequate supporting documentation (\$1,000) as discussed in MDP NFR 2014-1; and
- General ledger management and reporting issues (\$1,329) as discussed in MDP NFR 2014-2.

Kearney noted unsupported costs of \$245,725 due to:

- Inadequate supporting documentation (\$231,283) as discussed in MDP NFR 2014-1; and
- Inadequate procurement practices (\$14,442) as discussed in MDP NFR 2014-3.

INDEPENDENT AUDITOR'S REPORT

To the Chief Financial Officer of Private Agencies Collaborating Together, Inc. (currently Pact, Inc. [Pact]) and the Special Inspector General for Afghanistan Reconstruction (SIGAR):

Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) was engaged to audit Pact's Special Purpose Financial Statement (SPFS or financial statement) for Cooperative Agreement Number 306-A-00-06-00519-00, Media Development in Afghanistan Program for the period of August 1, 2006 through September 30, 2011 (herein referred to as the agreement). The SPFS and accompanying footnote disclosures are the responsibility of Pact's management. Our responsibility is to express an opinion on the SPFS based on our audit.

The accompanying SPFS was prepared for the purpose of complying with financial statement presentation requirements for SIGAR and reporting the revenues, costs incurred, and resulting fund balance for the agreement between Pact and the United States Agency for International Development (USAID), as discussed in Note 1. Further, as described in Note 2, the SPFS for this agreement was prepared using a comprehensive basis of accounting other than generally accepted accounting principles.

Pact was unable to provide sufficient appropriate audit evidence to substantiate costs incurred for a material portion of the Sub-grants, Subcontracts line item, thus restricting the scope of our audit. Since a majority of the total costs incurred was attributable to this line item, this restriction prevents us from forming an opinion on the financial statement taken as a whole.

Because of the significance of the matter described in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the SPFS.

In accordance with *Government Auditing Standards*, we have also issued reports, dated June 13, 2014, on our consideration of management's internal control over financial reporting (internal control) and on our tests of its compliance with certain provisions of the contract agreement and applicable laws and regulations. The purpose of those reports is to describe the scope of our testing of internal control and compliance with certain provisions of the agreement and applicable laws and regulations, as well as the results of that testing, and not to provide an opinion on internal control 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.

* * * * *



This report is intended for the information of Pact, USAID, and 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 United States Code 1905 should be considered before any information is released to the public.

A handwritten signature in blue ink that reads "Kearney & Company". The signature is written in a cursive, flowing style.

Alexandria, Virginia
June 13, 2014

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Chief Financial Officer of Private Agencies Collaborating Together, Inc. (currently Pact, Inc. [Pact]) and the Special Inspector General for Afghanistan Reconstruction (SIGAR):

Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) was engaged to audit Pact's Special Purpose Financial Statement (SPFS or financial statement) for Cooperative Agreement Number 306-A-00-06-00519-00, Media Development in Afghanistan Program (MDP) for the period of August 1, 2006 through September 30, 2011 (herein referred to as the agreement) and have issued our Independent Auditor's Report dated June 13, 2014. Our report states that because of the matters discussed therein, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the SPFS for the period.

Pact's management is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments made 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 Pact's 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 Pact management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the SPFS in conformity with the basis of accounting described in Note 2 to the SPFS. Because of inherent limitations in internal control, errors or fraud may nonetheless 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 due to changes in condition, or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our work, Kearney considered Pact's internal control over financial reporting (internal control) by obtaining an understanding of the design effectiveness of Pact's internal controls, determining whether controls had been placed in operation, assessing the control risk, and performing tests of Pact's controls as a basis for designing our auditing procedures for the purpose of expressing an opinion on the SPFS, and not to provide an opinion on the internal controls. Accordingly, we do not express an opinion on the effectiveness of Pact's internal controls.

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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a

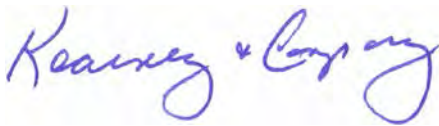
deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider one deficiency described in the accompanying Schedule of Findings and Responses to be a material weakness (MDP NFR 2014-1).

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 two deficiencies described in the Schedule of Findings and Responses to be significant deficiencies (MDP NFR 2014-2 and MDP NFR 2014-3).

Additionally, Pact's management has given its response to the findings presented in our report. We did not audit Pact's response to the findings, and, accordingly, we do not express an opinion on it.

* * * * *

This report is intended solely for the information and use of Pact, the United States Agency for International Development, and 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 United States Code 1905 should be considered before any information is released to the public.



Alexandria, Virginia
June 13, 2014

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Chief Financial Officer of Private Agencies Collaborating Together, Inc. (currently Pact, Inc. [Pact]) and the Special Inspector General for Afghanistan Reconstruction (SIGAR):

Kearney & Company, P.C. (referred to as "Kearney," "we," and "our" in this report) was engaged to audit Pact's Special Purpose Financial Statement (SPFS or financial statement) for Cooperative Agreement Number 306-A-00-06-00519-00, Media Development in Afghanistan Program (MDP) for the period of August 1, 2006 through September 30, 2011, (herein referred to as the agreement) and have issued our Independent Auditor's Report dated June 13, 2014. Our report states that because of the matters discussed therein, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the SPFS for the period.

Pact's management is responsible for compliance with agreement terms and applicable laws and regulations.

As part of our procedures, we performed tests of Pact's compliance with certain provisions of agreement terms and applicable 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.

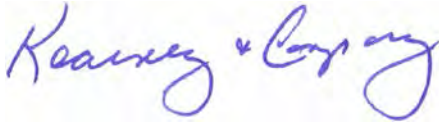
The results of our tests of compliance with certain provisions of agreement terms and applicable laws and regulations disclosed two instances of non-compliance, described in the accompanying Schedule of Findings and Responses (MDP NFR 2014-1 and MDP NFR 2014-3), that are required to be reported under *Government Auditing Standards*.

Auditors must plan and perform the audit to obtain sufficient appropriate audit evidence for obtaining reasonable assurance about whether the financial statements are free of material misstatement (whether caused by error or fraud). During planning, management disclosed instances of fraud, which were used to assess the risks and level of testing to be performed. The results of our tests of compliance with certain provisions of agreement terms and applicable laws and regulations did not disclose any additional instances of fraud. However, our objective was not to provide an opinion on instances of fraud. Accordingly, we do not express such an opinion.

Additionally, Pact's management has given its response to the findings presented in our report. We did not audit Pact's response to the findings, and, accordingly, we do not express an opinion on it.

* * * * *

This report is intended solely for the information and use of Pact, the United States Agency for International Development, and 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 United States Code 1905 should be considered before any information is released to the public.



Alexandria, Virginia
June 13, 2014

SCHEDULE OF FINDINGS AND RESPONSES

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this report) noted three individual findings, one material weakness and two significant deficiencies, each of which also had an aspect of non-compliance and resulted in a total of \$250,155 of questioned costs. The dollar values reported in the findings are whole United States Dollars (USDs), and the fully burdened amounts are calculated using the rates per Pact and Internews’ Negotiated Indirect Cost Rate Agreements (NICRA) and other relevant fees to the agreement.

Material Weakness/Non-Compliance

MDP NFR 2014-1: Inadequate Supporting Documentation

Condition: Pact did not produce or retain adequate supporting documentation for transactions reported, or require its subrecipients to provide adequate supporting documentation with financial reports, resulting in a total unburdened questioned costs of \$234,384 (\$262,584 burdened and \$268,182 burdened with Pact’s sub-grant handling fee), which are described in further detail below.

Transactions performed by Pact (Travel, Transportation, and Per Diem line item):

For one instance related to travel, insufficient receipts were provided to support costs incurred. This condition resulted in unburdened unsupported costs of \$2,101. The burdened costs associated with this instance are \$2,890.

Transactions performed by Internews (Sub-grants, Subcontracts line item):

For 58 instances, Pact did not obtain sufficient supporting documentation from Internews and Internews could not provide sufficient documentation to adequately support the costs incurred. The resulting unburdened questioned costs totaled \$232,283 (\$259,694 burdened and \$265,292 burdened with Pact’s sub-grant handling fee).

- In one instance under Personnel, timesheets were not provided to support a payroll transaction. This transaction was related to local labor and encompassed payroll costs for 30 individuals for which no timesheets were provided to support the hours paid or to support that the hours were approved by a supervisor. This condition resulted in unburdened unsupported costs associated of \$12,343, which is the full sampled amount. The burdened costs associated with this instance are \$22,023 (including fringe and overhead), and \$22,488 with relevant fees.
- For one instance under Personnel, documentation provided did not reconcile to our sample amount and explanations were not provided. The documentation provided included multiple employees and we were unable to identify the sample amount. As such, the sample amount is unsupported in the unburdened amount of \$371, with burdened costs (including fringe and overhead) totaling \$658 and \$669 with relevant fees.

- In five instances, the amount paid to the employee did not reconcile to the amount to be paid per the personnel or personal service contract (PSC) records, as follows:
 - In one instance under Consultants, the not-to-exceed amount as documented in the PSC was exceeded by \$945, thus this unburdened amount is unsupported. The burdened unsupported costs associated with this sample are \$1,272, and \$1,292 with relevant fees;
 - In two instances under Personnel, one for the original payroll and one for an adjustment to that payroll, the total amount recorded was incorrect. In the original payroll transaction, the employee was underpaid based on the hourly rate per his employee agreement. Management identified this error and made an adjustment. The adjustment was greater than the amount calculated to be the underpayment of the original payroll and the difference was not explained by management or by the support for the adjustment. The net amount of these two transactions equates to a calculated overpayment \$256 and thus an unsupported unburdened amount of \$256. The associated burdened unsupported costs (including fringe and overhead) totals \$454, and \$464 with relevant fees;
 - In one instance under Personnel, adequate documentation was not provided to support the pay rate paid. The hourly pay rate paid did not reconcile to the annual salary per our calculation. The individual was paid at \$.43 an hour more than the calculated hourly pay rate and this difference was not explained. This result in unburdened unsupported costs of \$17. The burdened unsupported costs (including fringe and overhead) of this sample totals \$30, and \$31 with relevant fees;
 - In one instance under ODCs related to gardener's wages, the wages paid did not reconcile to the underlying order. The wages were for temporary work procured via a purchase order mechanism, not an employment agreement, and thus appropriately classified as ODCs; however, the wages paid did not match the approved order, causing unburdened unsupported costs of (\$8). The burdened unsupported costs total (\$9), and (\$9) with relevant fees.
- For five instances under Personnel, an employment agreement, personnel record or freelance contract to substantiate the pay rate paid could not be provided. A USAID budget document was provided; however, we could not locate the associated rates or specific personnel for these samples in order to re-calculate the transactions, resulting in unburdened unsupported costs of \$1,318. Further, included in this unsupported amount is a \$2 miscalculation of the amount due per the exchange rate in one sample. The burdened costs (including fringe and overhead) associated with these samples are \$2,333, and \$2,380 with relevant fees.
- For two instances under Personnel, the sampled amount was a medical allowance. While the allowance amount was appropriate based on benefit policies, an employment agreement or personnel record to substantiate eligibility could not be provided, thus it could not be determined the individual's receipt of the allowance was appropriate. This resulted in unburdened unsupported costs of \$19. The burdened costs (including fringe and overhead) associated with these samples are \$35, and \$36 with relevant fees.
- In one instance under Consultants, the PSC agreement in effect at the time of the sampled transaction was not provided. An agreement was provided; however, it was effective after the pay period sampled. As such we were unable to validate the pay rate paid as being appropriate and because no agreement could be provided that preceded the pay

period sampled, we deemed the transaction unsupported in full for the unburdened amount of \$2,827. The burdened costs (including fringe and overhead) associated with this sample are \$4,993, and \$5,098 with relevant fees.

- In two instances for ODCs, insufficient receipts were provided. Receipts were not provided to support costs incurred, including a lunch provided for staff and airfare related to home leave for an employee. We also note there was no approval evident on the home leave voucher. As such, the samples are unsupported in full in the unburdened amount of \$1,508, with burdened costs of \$1,670, and \$1,711 with relevant fees.
- For three instances under ODCs, documentation provided did not reconcile to our sample amount and explanations were not provided. Incorrect documentation was provided and we did not obtain sufficient explanation. A summary voucher was provided; however, amounts did not reconcile to the sample amounts selected for testing. The three samples selected were reclassification transactions and it appears only the original transaction documentation was provided, which did not reconcile to or explain the sampled transactions. Based on this, each sample is unsupported in full for an unburdened amount of \$82, with burdened costs totaling \$90, and \$92 with relevant fees.
- In four instances under ODCs, an employee agreement, contract, or other underlying agreement could not be provided to support costs incurred, and management did not provide explanation; as such, each sample is questioned in full as unsupported:
 - For one instance, an agreement was not provided to support the clerk wages, causing unburdened unsupported costs of \$20, with burdened costs totaling \$22 and \$23 with relevant fees;
 - For three instances, allowances were paid; however, it could not be determined that the allowances were appropriate. In one case, a housing allowance was paid; however, no employment agreement or housing agreement could be provided to show eligibility and accuracy causing \$850 to be unsupported. In the other two instances, a car rental payment in the form of an allowance was made to employees; however, no documentation was provided to support the monthly allowance amount was accurate totaling \$2,400. As such, \$3,250 unburdened costs are deemed unsupported, with the burdened amount totaling \$3,597 and \$3,689 with relevant fees.
- In one instance under Supplies, documentation provided did not reconcile to our sample amount and explanations were not provided. Documentation was provided to support the invoiced amount which did not reconcile to the sample amount. Also, payment was made prior to delivery of the goods and no subsequent validation of the receipt of goods was provided. As such, the entire sample amount is considered unsupported in unburdened amount of \$62,467, with a burdened amount of \$68,813 and \$70,471 with relevant fees.
- In one instance under Supplies, documentation provided did not reconcile to our sample amount and explanations were not provided. An invoice was provided to support the entire amount of costs incurred including the supplies, other tangible items, and related shipping, which was greater in total than our sample amount and it could not be determined which items on the invoice comprised the sample. A subsequent reclassification journal entry was provided to show the allocation of the invoice costs between supplies, tangible items and shipping accounts; however, the journal entry shows a supplies amount of \$31,317 and the sample amount for supplies is \$34,585. Thus, the difference is considered unsupported. The unsupported unburdened costs are \$3,268, with burdened costs totaling \$3,630 and \$3,707 with relevant fees.

- In four instances under Travel, insufficient receipts were provided to support sampled amounts. In two of these samples, the transactions were for international credit card fees and the cardholder statement was provided; however, we could not determine which charges the fees were associated with and management did not provide explanation. For the remaining two samples, only the payment voucher was provided to support a trip; no itineraries, receipts, or invoices were included to support the costs. The unburdened costs for these samples total \$1,863, with burdened costs totaling \$2,050, and \$2,086 with relevant fees.
- In four instances under Contractual Services, we were unable to verify the accuracy of invoiced amounts based on contract documentation provided. All four transactions were periodic payments to the same vendor and thus the same contract documentation was referenced for each. A change order was referenced in the invoices; however, management was unable to provide the change order. As such, \$56,086 unburdened costs are deemed unsupported, with the burdened amount totaling \$61,616, and \$62,602 with relevant fees.
- In one instance under Consultants, insufficient documentation to support the independent contractor's qualifications, and as such we were unable to determine that the payroll transaction was reasonable, resulting in unburdened ineligible costs of \$1,000. The burdened costs (including fringe and overhead) associated with this sample are \$1,766, and \$1,809 with relevant fees.
- In all 23 samples of Internews' Sub-grant costs, insufficient documentation was provided to support the costs reported by the sub-grantee on their monthly financial reports. Each sample had discrepancies between the monthly financial report amount reported by the sub-grantee and the supporting documentation provided, primarily resulting from missing vouchers and a lack of labor support. These instances resulted in burdened unsupported costs of \$84,651 (\$86,653 burdened with Pact's sub-grant handling fee). The unsupported costs were burdened with Internews' NICRA rates in Internews GL; therefore, this finding applies only the PACT Sub-grant handling fee.

Cause: Pact management did not produce and/or retain adequate documentation, in accordance with policies and agreements. Pact did not perform adequate monitoring to ensure documentation was produced and retained for costs incurred. Pact management's documentation practices did not allow for documentation to be provided.

Criteria: Per 22 Code of Federal Regulations (CFR), Section 226.53, *Retention and Access Requirements for Records*:

“(a) This section sets forth requirements for record retention and access to records for awards to recipients. USAID shall not impose any other record retention or access requirements upon recipients.

(b) Financial records, 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 report¹ 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 USAID.”

Per the Pact and Internews subagreement AH-001, “the Recipient’s financial records shall be maintained for three years following the date of the submission of the final financial report. Pact reserves the right to conduct its own audit and/or review of the Recipient’s records in the exercise of its obligations under this Subagreement.”

Per Internews sub-grant agreements to subrecipients (B1650-Nai-00, Modification 1 and B1560-PAN-00 and B1560-EA-00):

“Financial reports will be prepared using the following guidelines:

- (a) expenses must be categorized according to the budget line items...;
- (b) each expense must have a supporting receipt or voucher;
- (c) each receipt or voucher must be attached to a full sheet of paper (more than one receipt per page is allowed) with a description in English, date paid, currency conversion rate used (if applicable), and a control number assigned by Subrecipient;
- (d) each receipt or voucher must be recorded in a register by date, control number, payee, identifying memo and applicable line item in the approved budget;
- (e) original documentation (receipts, vouchers, invoices, time sheets, etc.) substantiating all expenditures shall be retained by the Subrecipient and made available to Internews upon request; and
- (f) monthly financial reports to Internews Network will consist of copies of the register(s) described in (e) above, and a summary of total project expenses for each budget line item using the template attached to this agreement...”

Effect: The lack of adequate supporting documentation resulted in questioned costs that may be determined to be unallowable by USAID. There is an increased likelihood that there are more costs in the Travel, Transportation and Per Diem and Sub-grants, Subcontracts line items of the SPFS that should be questioned because relevant documentation is not available. The unavailability of records causes disruption for the funding agency, and the prime recipient in the case of sub-recipients, to provide oversight and does not comply with 22 CFR Section 226.53.

Recommendation #1: Kearney recommends that Pact provide adequate supporting documentation to USAID or return the questioned amount of \$234,384 (\$262,584 burdened and \$268,182 burdened with Pact’s sub-grant handling fee).

Recommendation #2: Kearney recommends that Pact ensure adequate supporting documentation is produced and retained for all costs incurred in accordance with regulations, policies and agreements. Pact should develop policies and procedures for documentation

¹ Auditor’s Note: Final expenditure reporting of this agreement occurred in January 2012.

requirements and retention, and require additional monitoring to enforce accountability on subrecipients to produce and retain adequate supporting documentation for transactions reported.

Management's Response: Pact's management provided specific responses to each individual finding. The full text of Pact's response is included verbatim in Appendix B, Private Agencies Collaborating Together, Inc.'s Response to Audit Report.

Auditor's Evaluation of Management's Response: Kearney has provided an evaluation of Management's Response in Appendix C.

*Significant Deficiency***MDP NFR 2014-2: General Ledger Management and Reporting Issues**

Condition: Financial transactions and adjustments were incorrectly or untimely recorded, resulting in financial reporting errors and unburdened ineligible costs of \$1,329 (\$1,464 burdened and \$1,495 with Pact sub-grant handling fee). Further, Internews current financial system could not provide legacy GL detail and legacy GL detail was not filed appropriately. The details of this condition are described in further detail below.

- In one instance, the transaction is for a direct adjustment for a loss resulting from an overpayment to an affiliate radio station; however, support shows that the original overpayment occurred prior to the start of the cooperative agreement with USAID. We conclude this adjustment is not allocable to this cooperative agreement and thus deem the transaction ineligible in the unburdened amount of \$1,329. The burdened amount associated with this instance totals \$1,464, and \$1,495 with relevant fees.
- Accurate costs were not recorded in the general ledger in a timely manner, thus impacting the accuracy of reporting to USAID on a quarterly basis. Pact provided advances to Internews based on estimated needs, recorded the estimated costs in the general ledger and relied on the quarterly financial reports from Internews to record actual costs in the general ledger. This was a similar process from Internews to their sub-recipients; however, Internews required sub-recipients to provide monthly financial reports by the 15th day after the end of each month. In six of 23 sampled transactions from the Internews general ledger that resulted from sub-recipients reported costs, costs were recorded in batches (several months at a time) based on either untimely recording or late submissions of monthly financial reports by the sub-recipients. Dates were typed in the monthly reports but it could not be determined if the report dates were the submission dates. In five of the six cases, the batch recording of costs spanned over a quarter-end, thus impacting the accuracy of Internews' quarterly financial reports to Pact, and Pact's quarterly financial reports to the funding agency.
- GL Details could not be readily provided to reconcile costs incurred for Consultants and Contractual Services lines of the Internews Project Supporting Schedule, which reconciled to the subaward line of the Pact special purpose financial statement. Since the time of this cooperative agreement, Internews converted to a new financial system and the former accounting system could no longer be actively queried. Internews was dependent on locating previously published and filed GL reports and were unable to readily provide the final version. Internews provided several reiterations of GL detail that did not reconcile to the Internews Project Supporting Schedule and research was necessary to ascertain the correct and final version. The initial GL detail provided contained significant variances to the Internews Project Supporting Schedule. After additional research, Internews' management provided a revised GL detail that did reconcile to the Internews Project Supporting Schedule, but could not identify the transactions that represented the difference from the previous submission. The amount of the difference is not questioned since Internews eventually provided the reconciled GL detail; however, we question the ability to rely on prior year records to show accurate GL detail.

Cause: Pact did not ensure that Internews had effective internal controls for reviewing adjustments and Internews' control failed due to an oversight. Internews did not monitor the monthly financial reporting from its subrecipients. Internews was unable to readily provide GL details that reconciled to costs incurred due to a system conversion that disallowed the ability to create reports from the legacy system and did not transfer legacy data into the new system, thus forcing reliance on filed historical reports. Historical reports were not filed in a manner that could easily identify the final version.

Criteria (bulleted to align with condition bullets):

- Per OMB Circular A-122, *Cost Principles for Non-Profit Organizations* section 4. Allocable costs:
 - “a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and 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.
 - b. Any cost allocable to a particular award or other cost objective under these principles may not be shifted to other Federal awards to overcome funding deficiencies, or to avoid restrictions imposed by law or by the terms of the award.”
- Per the Pact and Internews subagreement AH-001, Quarterly Financial Status Reports:

“These reports will flow into the quarterly financial reports required by the Leader award and their contents will be in keeping with 22 CFR 226.52.”

Per Internews sub-grant agreements to subrecipients (B1650-Nai-00, Modification 1 and B1560-PAN-00):

“Monthly financial reports of the project will be submitted within 15 days following the end of each month.”
- Per 22 CFR Section 226.53, *Retention and Access Requirements for Records*:

“(e) USAID, the Inspector General, Comptroller General of the United States, or any of their duly authorized representatives, have the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the awards, in order to make audits, examinations, excerpts, transcripts and copies of such documents. This right also includes timely and reasonable access to a recipient's personnel for the purpose of

interview and discussion related to such documents. The rights of access in this paragraph are not limited to the required retention period, but shall last as long as records are retained.”

Per 22 CFR Section 226.21, *Standards for Financial Management Systems*:

“(b) Recipients' financial management systems shall provide for the following:

- (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in § 226.52.”

Effect: Ineligible costs were recorded and as such, the government was overcharged. Without adequate internal controls, it is more likely that ineligible costs could exist. Potential misstatement of costs and inaccurate quarterly financial reports submitted to the funding agency. The unavailability of reliable legacy GL detail causes disruption for the funding agency and the prime recipient to provide oversight. Further, there exists a potential for non-compliance with federal regulations.

Recommendation #3: Kearney recommends that Pact return the ineligible amount of \$1,329 (\$1,464 burdened and \$1,495 with fees), based on it being unallocable to the agreement.

Recommendation #4: Kearney recommends that Pact implement internal controls to ensure that all transactions recorded are incurred specifically for the agreement, that subrecipients are monitored to enforce timely and accurate financial reporting, and that GL detail from legacy systems is properly maintained to be readily available for audit.

Management’s Response: Pact’s management provided specific responses to each individual finding. The full text of Pact’s response is included verbatim in Appendix B, Private Agencies Collaborating Together, Inc.’s Response to Audit Report.

Auditor’s Evaluation of Management’s Response: Kearney has provided an evaluation of Management’s Response in Appendix C.

Significant Deficiency and Non-Compliance

MDP NFR 2014-3: Inadequate Procurement Practices

Condition: Pact did not adequately monitor Internews' procurement practices, resulting in unburdened unsupported costs of \$14,442 (\$15,931 burdened and \$16,270 with Pact's sub-grant handling fee), which are described in further detail below.

- For two samples of ODCs, the effective date of the service agreement (as stipulated by the agreement) occurred and services commenced prior to the underlying procurement document being signed. The first instance was the rental of equipment where the service was actually being provided by a reseller with whom the primary provider had ceased trading. An agreement was in place with the original provider and the reseller continued to provide services prior to establishing communication and a new agreement. The sampled amount was payment for five months, three of which occurred prior to the execution of the agreement. Therefore, the cost of the service for the three months prior to execution of \$2,653 is deemed unsupported. *(Note: This sample is unsupported in full as a result of the subsequent bullet below regarding competition; therefore, this unsupported amount is not included in the total amount reported above.)* The second instance was for internet fees and an explanation was not provided. The costs sampled in this instance were for a period of service occurring in full prior to the execution of the agreement; therefore, the costs of \$21 are questioned in full. A policy was not in place to limit the acceptance of services prior to execution of the underlying procurement document. This resulted in unburdened unsupported costs of \$21. The burdened amount associated with these samples totals \$24, and \$24 with relevant fees.
- In two samples, the policy of obtaining quotations and documenting evidence of proper bidding procedures did not occur, as follows:
 - For one sample of a procurement of rented equipment (ODCs) in the amount of \$4,421, insufficient evidence was provided for the required three bids. A text file was provided stating that three bids were obtained but evidence of the bids was not provided. The text file was a copy of an e-mail from a Resident Technical Advisor that contained a list of three company names and their proposed overall cost. This resulted in unburdened unsupported costs of \$4,421. The associated burdened amount totaled \$4,870, and \$4,972 with relevant fees;
 - In one sample for the procurement of Contractual Services in the amount of \$10,000, no evidence of the required two bids was provided. During the course of follow-up, an explanation was provided that a sole source procurement was performed and an e-mail from the individual requesting the procurement was provided, which requested a specific vendor based on expertise. However, the required sole source justification memo completed by the procuring official was not attached to the Procurement Approval Request form and could not be otherwise provided. This resulted in unburdened unsupported costs of \$10,000. The burdened costs associated with this sample are \$11,037, and \$11,274 with relevant fees.

Cause: Pact's oversight practices were not sufficient to identify inadequate procurement practices conducted by Internews. Delays in Internews' execution of the service contracts were

caused by the local office not communicating the establishment of the original service agreement until after the service had been initiated and the service being transferred to a “reseller” from the primary provider without a new agreement being established upon.

Criteria (bulleted to align with condition bullets):

- Per 22 CFR Section 226.44, *Procurement Procedures*:

“(a) All recipients shall establish written procurement procedures.”

- Per 22 CFR Section 226.43, *Competition*:

“All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.”

Per Internews Network Afghanistan Finance & Accounting Guide, Section “Procurements,” Subject “PURCHASES BETWEEN 50,001 AFS AND 250,000 AFS (OR BETWEEN \$1,001 AND \$4,999)”:

“Upon receiving the authorized [Procurement Request Form (PRF)], Procurement Officer will obtain quotations from at least three separate vendors...If three quotations cannot be obtained, the reason should be documented in a memo to the file.”

Per Internews Network Procurement & Property Management Policies, section 1.4.1 Documentation Requirements:

“Except as provided for in part 1.5 of this policy, for each procurement of goods and/or services with a purchase price of \$5,000 to \$24,999.99 the purchasing employee must document their compliance with this subpart. Acceptable documentation shall identify the vendor, item, and price offered, for at least two prospective suppliers.”

Per Internews Network Procurement & Property Management Policies, section 1.5 Exceptions to Bid Requirements (Sole Source Justification):

“In a sole-source procurement, the bid requirements of section 1.4 of this policy should be substituted with a memorandum-to-file, completed by the procuring employee, that justifies a reasonable exception(s) to these bid requirements. This memorandum should be attached to the pertinent Procurement Approval Request (PAR) form.”

Effect: The inadequate procurement practices result in the following:

- Increased likelihood or frequency that costs incurred are unallowable because underlying procurements were not properly executed;
- Increased risk that costs incurred are greater than the fair market value, and/or the Government does not receive the best value for procured goods/services when insufficient competitive bidding occurs;
- Increased risk of fraud; and
- Non-compliance with 22 CFR Section 226.43.

Recommendation #5: Kearney recommends that Pact provide the necessary supporting documentation to USAID or return the unsupported amount of \$14,442 (\$15,931 burdened and \$16,270 fully burdened), based on the lack of supporting documentation or explanations for the variances identified.

Recommendation #6: Kearney recommends that Pact implement internal controls to ensure adequate procurement practices are performed for all costs incurred under the agreement, including a policy to prevent the acceptance of services prior to the execution of the service agreement and that appropriate procurement bidding procedures are performed with adequate supporting documentation maintained.

Management's Response: Pact's management provided specific responses to each individual finding. The full text of Pact's response is included verbatim in Appendix B, Private Agencies Collaborating Together, Inc.'s Response to Audit Report.

Auditor's Evaluation of Management's Response: Kearney has provided an evaluation of Management's Response in Appendix C.

**APPENDIX A –
PRIOR AUDIT FINDINGS AND STATUS**

Kearney & Company, P.C. (Kearney) identified Pact and Internews findings stated in prior audit reports that could have a material effect on the Special Purpose Financial Statement (SPFS). Internews, as Pact’s implementing partner, received over 96 percent of the total agreement funding. Consequently, the applicable audit reports pertained only to Internews. Kearney identified the following prior audit reports with findings that could have a material impact on the SPFS:

- Gelman, Rosenberg, & Freedman Internews Financial and Federal Award Compliance Examination for the years ending December 31, 2005 and 2006; and
- Gelman, Rosenberg, & Freedman Internews Financial and Federal Award Compliance Examination for the years ending December 31, 2009 and 2010.

Kearney then inquired about whether management implemented corrective action plans (CAPs) to address the findings and determined the status and adequacy of the CAPs. A summary of Kearney’s conclusions are included in the tables below, by audit report.

Gelman, Rosenberg, & Freedman Internews Financial and Federal Award Compliance Examination for the years ending December 31, 2005 and 2006

The following represents a summary of the findings related to Internews’ Financial Statement, as reported by Gelman, Rosenberg, & Freedman in their report, dated May 3, 2007:

#	Previously Reported Findings	Status
1	<p>Finding 06-1: Misappropriation of Funds (Afghanistan and Indonesia)</p> <p>Condition: “During the year, there were two instances of confirmed fraud, in Afghanistan and Indonesia. These instances of fraud were discovered by Internews Network Staff, and properly investigated. The individuals involved in the fraud have been removed from the organization. Internews is currently exploring alternatives to the internal audit function to reduce the risk of fraud in the future, including the use of independent audits of field offices deemed to be higher risk.”</p>	<p>On the premise that fraud was again reported in the Internews Financial and Federal Award Compliance Examination for the years ending December 31, 2009 and 2010, as described in Finding 2010-1 of that report (finding #3 below), Kearney concludes that adequate corrective action was not taken in response to this finding because fraud occurred again in the same office in 2010. However, given the corrective action implemented after the 2010 report, we conclude that adequate corrective action has been taken to reduce the risk of fraud reoccurrence. Please see finding #3 below for further information.</p>

#	Previously Reported Findings	Status
2	<p>Finding 06-2: Timesheet Approvals</p> <p>Condition: “As Internews operates in many areas around the world, it is common practice that its employees (those paid from headquarters) submit timesheets electronically; the timesheet submission also includes an e-mail from the employee's respective supervisor indicating approval. We noted numerous instances where this e-mail approval was not present.”</p>	<p>Kearney concludes that corrective action has been taken. In the course of our audit, Kearney noted that controls were in place and operating effectively for the approval of timesheets, with the exception of one group of timesheets that could not be provided and as such we could not validate whether or not that timesheet was approved, as reported in MDP NFR 2014-1.</p>

Gelman, Rosenberg, & Freedman Internews Financial and Federal Award Compliance Examination for the years ending December 31, 2009 and 2010

The following represents a summary of the findings related to Internews’ Financial Statement, as reported by Gelman, Rosenberg, & Freedman in their report, dated August 25, 2011:

#	Previously Reported Finding	Status
3	<p>Finding 2010-1: Reporting of Known Fraud (Afghanistan)</p> <p>Condition: “Fraud (in Afghanistan) was discovered and reported to headquarters' management during January 2011.”</p>	<p>Kearney concludes that adequate corrective action was taken. Through Kearney’s review of supporting documentation, we note management took the following corrective actions:</p> <ul style="list-style-type: none"> • Headquarters’ program accounting staff continues to provide guidance and direct assistance and support in the implementation of improved controls. Since the date of the incident response, the Kabul office has received training, internal audit and oversight visits by Internews headquarters staff, including the Vice President-Finance, Program Accounting Controller, and the Asia Regional Program Accountant • The Afghanistan Field Finance Procedures Manual was completed and implemented • Five staff members involved with this incidence of fraud were terminated (or resigned) the week of February 7, 2011 • A new ExPat Director of Administration and Finance person has been hired (May 2011), with the authority to implement and maintain internal controls, including improved procurement and inventory procedures; controls and verification of fuel delivery and generator maintenance; and budget management • New Senior Procurement Officer and Inventory Manager were hired to implement a higher degree of controls over procurement • The Chief of Party and Deputy Chief of Party have received supplemental training on their responsibilities regarding general review and approval of payment vouchers and disbursements; implemented more thorough reference and conflict of interest checks during hiring.

**APPENDIX B –
PRIVATE AGENCIES COLLABORATING TOGETHER,
INC.’S RESPONSE TO AUDIT REPORT**

INTERNEWS' RESPONSES TO SPECIFIC FINDINGS

Material Weakness/Non-Compliance MDP NFR 2014-1: Inadequate Supporting Documentation

Transactions performed by Internews (Sub-grants, Subcontracts line item):

For 58 instances, Pact did not obtain sufficient supporting documentation from Internews and Internews could not provide sufficient documentation to adequately support the costs incurred. The resulting unburdened questioned costs totaled \$232,283 (\$259,694 burdened and \$265,292 burdened with Pact's sub-grant handling fee).

- In one instance under Personnel, timesheets were not provided to support a payroll transaction. This transaction was related to local labor and encompassed payroll costs for 30 individuals for which no timesheets were provided to support the hours paid or to support that the hours were approved by a supervisor. This condition resulted in unburdened unsupported costs associated of \$12,343, which is the full sampled amount. The burdened costs associated with this instance are \$22,023 (including fringe and overhead), and \$22,488 with relevant fees.*

Internews Response: Regarding this finding we recommended that the auditor accept our ability to provide testimonial evidence from affected individuals in lieu of the requested timesheets. Audit evidence can include physical evidence, testimonial material, and analysis of information. Together, we contend that we were able to make an authoritative statement that these payments were accurate based on hours actually worked, approved by the supervisors in question, and allowable under the terms of our agreement with PACT. Both precedent and subsequent payments were fully supported by documentary evidence, which proved that the approval and reporting procedures were in place and a single summary timesheet had been inadvertently misplaced.

- For one instance under Personnel, documentation provided did not reconcile to our sample amount and explanations were not provided. The documentation provided included multiple employees and we were unable to identify the sample amount. As such, the sample amount is unsupported in the unburdened amount of \$371, with burdened costs (including fringe and overhead) totaling \$658 and \$669 with relevant fees.*

Internews Response: This de minimis amount identified by the auditor was a function of a conversion between local currency (AFS) and USD. Minor calculation differences across multiple employee payment records produced the total amount of USD 371. The general intent and nature of the expense should be regarded as reasonable and allowable under the terms of the agreement. Circular A-122 states in part that "...a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." We believe that not accepting a minor departure from the auditor's requirement of perfect documentation

regarding this expense is unduly burdensome, and ignores the other equally important basic considerations of the General Principles of A-122.

- *In five instances, the amount paid to the employee did not reconcile to the amount to be paid per the personnel or personal service contract (PSC) records, as follows:*
 - *In one instance under Consultants, the not-to-exceed amount as documented in the PSC was exceeded by \$945, thus this unburdened amount is unsupported. The burdened unsupported costs associated with this sample are \$1,272, and \$1,292 with relevant fees.*
 - *In two instances under Personnel, one for the original payroll and one for an adjustment to that payroll, the total amount recorded was incorrect. In the original payroll transaction, the employee was underpaid based on the hourly rate per his employee agreement. Management identified this error and made an adjustment. The adjustment was greater than the amount calculated to be the underpayment of the original payroll and the difference was not explained by management or by the support for the adjustment. The net amount of these two transactions equates to a calculated overpayment \$256 and thus an unsupported unburdened amount of \$256. The associated burdened unsupported costs (including fringe and overhead) totals \$454, and \$464 with relevant fees.*
 - *In one instance under Personnel, adequate documentation was not provided to support the pay rate paid. The hourly pay rate paid did not reconcile to the annual salary per our calculation. The individual was paid at \$.43 an hour more than the calculated hourly pay rate and this difference was not explained. This result in unburdened unsupported costs of \$17. The burdened unsupported costs (including fringe and overhead) of this sample totals \$30, and \$31 with relevant fees.*
 - *In one instance under ODCs related to gardener's wages, the wages paid did not reconcile to the underlying order. The wages were for temporary work procured via a purchase order mechanism, not an employment agreement, and thus appropriately classified as ODCs; however, the wages paid did not match the approved order, causing unburdened unsupported costs of (\$8). The burdened unsupported costs total (\$9), and (\$9) with relevant fees.*

Internews Response: These reported de minimis amounts totaling a net USD 1,210 are due to an inability to locate certain individual personnel and personal service contract pay rate records in the Kabul office archives. The general intent and nature of the expenses should be regarded as reasonable and allowable under the terms of the agreement. Common sense and normal business practices dictate that there will be minor divergences from previously established pay rates due to exchange rate conversions, very minor arithmetic errors, and occasional failures to memorialize agreed upon pay rate adjustments.

- *For five instances under Personnel, an employment agreement, personnel record or freelance contract to substantiate the pay rate paid could not be provided. A USAID budget document was provided; however, we could not locate the associated rates or specific personnel for these samples in order to re-calculate the transactions, resulting in unburdened unsupported costs of \$1,318. Further, included in this unsupported amount is a \$2 miscalculation of the amount due per*
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the exchange rate in one sample. The burdened costs (including fringe and overhead) associated with these samples are \$2,333, and \$2,380 with relevant fees.

Internews Response: These reported de minimis amounts are due to an inability to locate certain individual personnel and personal service contract pay rate records in the Kabul office archives. The general intent and nature of the expenses should be regarded as reasonable and allowable under the terms of the agreement. Circular A-122 states in part that "...a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." We believe that not accepting a minor departure from the auditor's requirement of perfect documentation regarding this expense is unduly burdensome, and ignores the other equally important basic considerations of the General Principles of A-122.

- *For two instances under Personnel, the sampled amount was a medical allowance. While the allowance amount was appropriate based on benefit policies, an employment agreement or personnel record to substantiate eligibility could not be provided, thus [it] could not be determined the individual's receipt of the allowance was appropriate. This resulted in unburdened unsupported costs of \$19. The burdened costs (including fringe and overhead) associated with these samples are \$35, and \$36 with relevant fees.*

Internews Response: The auditor has determined that eligibility for the \$19 medical allowance is contingent upon the written terms of an employment agreement or personnel records, which was not required by policy or rule. This ignores the real-world practicalities associated with medical treatment afforded the employee and this specific financial transaction.

- *In one instance under Consultants, the PSC agreement in effect at the time of the sampled transaction was not provided. An agreement was provided; however, it was effective after the pay period sampled. As such we were unable to validate the pay rate paid as being appropriate and because no agreement could be provided that preceded the pay period sampled, we deemed the transaction unsupported in full for the unburdened amount of \$2,827. The burdened costs (including fringe and overhead) associated with this sample are \$4,993, and \$5,098 with relevant fees.*

Internews Response: The auditor was informed that the sampled transaction was a function of an agreed upon advance payment made to the consultant due to the nature of the assignment. Correctly accounted for, this advance payment was applied against the total maximum value of the agreement.

- *In two instances for ODCs, insufficient receipts were provided. Receipts were not provided to support costs incurred, including a lunch provided for staff and airfare related to home leave for an employee. We also note there was no approval evident on the home leave voucher. As such, the samples are unsupported in full in the unburdened amount of \$1,508, with burdened costs of \$1,670, and \$1,711 with relevant fees.*

Internews Response: As previously explained to the auditor available receipts were a personal credit card statement (establishing proof that the vendors had been paid and services received) that was acceptable to Internews for this purpose of validating the expense of the lunch and home leave. Regarding the home leave, the employee was entitled to the reimbursement amount under the specific terms of the employment agreement which was provided to the auditors as prima facie evidence. No additional approval was required to effect the leave other than noting the proposed absence with the funder (which was provided).

- *For three instances under ODCs, documentation provided did not reconcile to our sample amount and explanations were not provided. Incorrect documentation was provided and we did not obtain sufficient explanation. A summary voucher was provided; however, amounts did not reconcile to the sample amounts selected for testing. The three samples selected were reclassification transactions and it appears only the original transaction documentation was provided, which did not reconcile to or explain the sampled transactions. Based on this, each sample is unsupported in full for an unburdened amount of \$82, with burdened costs totaling \$90, and \$92 with relevant fees.*

Internews Response: This questioned de minimis amount of USD 82 identified by the auditor was a function of a conversion between local currency (AFS) and USD. Minor calculation differences across the three sampled transaction records produced the total amount of the difference.

- *In four instances under ODCs, an employee agreement, contract, or other underlying agreement could not be provided to support costs incurred, and management did not provide explanation; as such, each sample is questioned in full as unsupported:*
 - *For one instance, an agreement was not provided to support the clerk wages, causing unburdened unsupported costs of \$20, with burdened costs totaling \$22 and \$23 with relevant fees.*
 - *For three instances, allowances were paid; however, it could not be determined that the allowances were appropriate. In one case, a housing allowance was paid; however, no employment agreement or housing agreement could be provided to show eligibility and accuracy causing \$850 to be unsupported. In the other two instances, a car rental payment in the form of an allowance was made to employees; however, no documentation was provided to support the monthly allowance amount was accurate totaling \$2,400. As such, \$3,250 unburdened costs are deemed unsupported, with the burdened amount totaling \$3,597 and \$3,689 with relevant fees.*

Internews Response: Regarding these instances the reported de minimis amount of USD 20 was due to an inability to locate the specific individual personnel pay rate record for the period in question in the Kabul office archives. Further the claim that a housing allowance of USD 850 was unsupported ignores the fact of approval by the Country Director. Additional supporting information requested by the auditor was not provided since this procurement action was below the documentation policy limits for such a reimbursement. Finally, the auditor is claiming there was no documentation provided in support of reimbursement for use of

employee-owned vehicles. “Vehicle Rent” reports were provided for all reimbursement requests and included details of employee to be reimbursed, rental rates, adjustments if any, and approvals and verifications by the employee and procurement officer and administrative staff.

The general intent and nature of the expenses should be regarded as reasonable and allowable under these circumstances and under the terms of the agreement. Circular A-122 states in part that “...a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.” We believe that not accepting a minor departure from the auditor’s requirement of perfect documentation regarding this expense is unduly burdensome, and ignores the other equally important basic considerations of the General Principles of A-122.

- *In one instance under Supplies, documentation provided did not reconcile to our sample amount and explanations were not provided. Documentation was provided to support the invoiced amount which did not reconcile to the sample amount. Also, payment was made prior to delivery of the goods and no subsequent validation of the receipt of goods was provided. As such, the entire sample amount is considered unsupported in unburdened amount of \$62,467, with a burdened amount of \$68,813 and \$70,471 with relevant fees.*

Internews Response: Documentation was provided regarding shipped goods supports total payments to vendor of USD 81,054.50, of which, as explained and documented, USD 62,466.50 was attributable to invoice numbers SI-100960 (6/14/2007), SI-101595 (8/6/2007), SI-101790 (8/22/2007) and CM-100103 (8/6/2007). No payments were made on unshipped (backordered) items with this transaction. The vendor required prepayment of these invoices and was clearly noted on the Purchase Order/Invoice. Journal entries provided the auditor indicated corrections made to original journal entries. Evidence of “original” purchase and payment per agreement payment schedule included in auditor Reference No. 93. Subsequent entries corrected allocation between Account 54808 (Outside Services), Account 54611 (Tangible Goods) and Account 54900 (Service Contracts).

- *In one instance under Supplies, documentation provided did not reconcile to our sample amount and explanations were not provided. An invoice was provided to support the entire amount of costs incurred including the supplies, other tangible items, and related shipping, which was greater in total than our sample amount and it could not be determined which items on the invoice comprised the sample. A subsequent reclassification journal entry was provided to show the allocation of the invoice costs between supplies, tangible items and shipping accounts; however, the journal entry shows a supplies amount of \$31,317 and the sample amount for supplies is \$34,585. Thus, the difference is considered unsupported. The unsupported unburdened costs are \$3,268, with burdened costs totaling \$3,630 and \$3,707 with relevant fees.*

Internews Response: The auditor is claiming an overpayment was made to the vendor because items purchased were not shipped. This is due to the auditor being unable to trace all items shipped to (a) equipment and (b) supplies and (c) shipping general ledger accounts. There was no overpayment. Journal entries submitted provided evidence of “original” purchase and

payment per agreement included in Sample 161 (and auditor Reference 91). The subsequent recode corrected the allocation between Account 54601 (Supplies), Account 54611 (Tangible Goods) and Account 54843 (Shipping). The Shipping account posted for USD 3,268 was not reviewed by the auditor.

- *In four instances under Travel, insufficient receipts were provided to support sampled amounts. In two of these samples, the transactions were for international credit card fees and the cardholder statement was provided; however, we could not determine which charges the fees were associated with and management did not provide explanation. For the remaining two samples, only the payment voucher was provided to support a trip; no itineraries, receipts, or invoices were included to support the costs. The unburdened costs for these samples total \$1,863, with burdened costs totaling \$2,050, and \$2,086 with relevant fees.*

Internews Response: As previously explained to the auditor available receipts were a personal credit card statement (establishing proof that the vendors had been paid and services received) that was acceptable to Internews for this purpose of validating the referenced program travel expenses and authorized home leave. Regarding the home leave, the employee was entitled to the reimbursement amount under the specific terms of the employment agreement which was provided to the auditors as prima facie evidence. No additional approval was required to effect the leave other than noting the proposed absence with the funder (which was provided).

- *In four instances under Contractual Services, we were unable to verify the accuracy of invoiced amounts based on contract documentation provided. All four transactions were periodic payments to the same vendor and thus the same contract documentation was referenced for each. A change order was referenced in the invoices; however, management was unable to provide the change order. As such, \$56,086 unburdened costs are deemed unsupported, with the burdened amount totaling \$61,616, and \$62,602 with relevant fees.*

Internews Response: This references a claim by the auditor that the entire series of payments to a security contractor are deemed unsupported. We provided evidence of the master agreement which included a maximum, not-to-exceed contract amount. While we were unable to provide the specific agreement form that evidenced the agreed upon monthly invoice amount, the maximum contract value was not exceeded. Competed procurement of the services followed standard policy and procedures, and the specific procurement action was approved by the funder. More to the point the nature of the procurement was dictated by critical personal security issues faced by the program that had not been foreseen during the original program design.

As the auditor was skeptical about the entire series of payments to the contractor based on the absence of reconciling source documentation, it might have been more practical to obtain evidence from the affected third party through an auditor-designed confirmation procedure about the allowable expense assertions made by management. This could have provided the auditor with more reliable evidence that would have been superior to anything provided by

Internews. It is our belief that this evidence provided by confirmation would have reduced audit risk to an acceptably low level.

- *In one instance under Consultants, insufficient documentation to support the independent contractor's qualifications, and as such we were unable to determine that the payroll transaction was reasonable, resulting in unburdened ineligible costs of \$1,000. The burdened costs (including fringe and overhead) associated with this sample are \$1,766, and \$1,809 with relevant fees.*

Internews Response: The auditor notes that due to the absence of a consultant's resume requested to confirm the contractor's qualifications, the cost incurred is deemed ineligible. As an alternative form of proof we offered to submit the contractor's work product to confirm the qualifications. Audit evidence can include physical evidence, testimonial material, and analysis of information, which in this case the auditor [chose] not to review. Internews asserts that this documentation would have been sufficient to establish the cost as reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of ineligible costs.

- *In all 23 samples of Internews' Sub-grant costs, insufficient documentation was provided to support the costs reported by the sub-grantee on their monthly financial reports. Each sample had discrepancies between the monthly financial report amount reported by the sub-grantee and the supporting documentation provided, primarily resulting from missing vouchers and a lack of labor support. These instances resulted in burdened unsupported costs of \$84,651 (\$86,653 burdened with Pact's sub-grant handling fee). The unsupported costs were burdened with Internews' NICRA rates in Internews GL; therefore, this finding applies only the PACT Sub- grant handling fee.*

Internews Response: In this finding the auditors are questioning the adequacy of supporting documentation on a small portion of costs incurred by the three primary Internews subawardees (the largest of which were two local Afghanistan entities). They state that they received a response for all 23 samples requested (requiring the supply to the auditors of documentation in excess of 1,700 transactions), but contend that each sample had discrepancies between the monthly financial reporting amount and the support provided. Internews asserts that the documentation as submitted has been misinterpreted by the auditors due to mismatching of the recipient's expense period, collation and presentation of supporting cost documentation, and the level of sophistication of recipient's internal accounting for payments made on an advance/liquidation basis. The adequacy of the recipient's systems must be viewed in light of one of the primary and key goals of the program. Internews was directed by the funder to pursue the following goals through a set of core activities to strengthen the independent media sector that included:

- Production and distribution of essential news and information to a broad, national audience, through diverse, locally owned and operated media outlets;
- Training and support for management, administration, and financial strength of media outlets; [emphasis added]. This included developing a critical mass of Afghans

with management and other skills through state-of-the-art training, technical assistance, and participant training. Furthermore, strengthening Afghan capacity building institutions in the public, private, NGO and educational sectors, allowing Afghans to provide sustained capacity building over the long-term.

- Support for creation, dissemination, and adoption of standards of practice in journalism and media conduct, conforming to international standards;
- Support and training for media outlets to produce a variety of programming that helps media, through in-depth and investigative reporting, to advance goals of governmental transparency and accountability, anti-corruption, and political participation and reform;
- Support for Afghan media and media support institutions to gain solid technical knowledge to build and maintain the broadcast sector, with a focus on radio;
- Training for Afghan lawyers and journalists in understanding and advocating for fair media regulation, freedom of expression, and access to information;
- Support for the creation and growth of media associations and supporting institutions;
- Access to media training, jobs, and educational opportunities to women and youth;
- Advocacy and training to government officials in understanding the role of independent media in an open society.

Therefore one of our key objectives was to conduct these activities by supporting a number of local media assistance organizations (including the aforementioned Afghanistan subawardees), with a focus on developing Afghan institutional capacity and individual skills, and an intent to further the overall sustainability and growth of both Afghan media and its supporting institutions.

Again our contention is that while ideal, the expectation of consistently achieving US standards of audit documentation from the local Afghanistan sub-recipients is unlikely.

Each subaward agreement contained the following clause regarding payments made in advance:

1. PAYMENT - ADVANCE (OCTOBER 1998)

(This provision is applicable when the recipient's accounting and financial management systems conform to the standards for funds control and accountability required under: the standard provision of this agreement entitled "Accounting, Audit, and Records", ADS Chapter 303.5.9 and 22 CFR 226.20 through 226.22.)

(a) In accordance with the Standard Provision entitled "Payment Advances and Refund":

USAID funds shall not be commingled with other recipient owned or controlled funds; the recipient shall deposit all USAID cash advances in a separate bank account and shall make all disbursements for goods and services from this account.

(b) 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 grantee as close as is administratively feasible to the actual disbursements by the grantee for program costs. Advances made by the recipient to subrecipients or the recipient's field organizations shall conform substantially to the same standards of timing and amount as apply to cash advances by USAID to the recipient.

Procedures

(c) After receipt of the initial advance, the recipient 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 recipient 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). At the end of each quarter the recipient shall submit a SF 1034 (marked "Liquidation of Advances") to liquidate the advances of the previous quarter. The recipient 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.

Internews asserts that this documentation is sufficient to establish the cost is reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of an activity or transaction that rises to the level of a material weakness or non-compliance with the provisions of the subaward agreement and applicable laws and regulations.

Significant Deficiency

MDP NFR 2014-2: General Ledger Management and Reporting Issues

- *In one instance, the transaction is for a direct adjustment for a loss resulting from an overpayment to an affiliate radio station; however, support shows that the original overpayment occurred prior to the start of the cooperative agreement with USAID. We conclude this adjustment is not allocable to this cooperative agreement and thus deem the transaction ineligible in the unburdened amount of \$1,329. The burdened amount associated with this instance totals \$1,464, and \$1,495 with relevant fees.*

Internews Response: We agree with this assessment.

- *Accurate costs were not recorded in the general ledger in a timely manner, thus impacting the accuracy of reporting to USAID on a quarterly basis. Pact provided*

advances to Internews based on estimated needs, recorded the estimated costs in the general ledger and relied on the quarterly financial reports from Internews to record actual costs in the general ledger. This was a similar process from Internews to their sub-recipients; however, Internews required sub-recipients to provide monthly financial reports by the 15th day after the end of each month. In six of 23 sampled transactions from the Internews general ledger that resulted from sub-recipients reported costs, costs were recorded in batches (several months at a time) based on either untimely recording or late submissions of monthly financial reports by the sub-recipients. Dates were typed in the monthly reports but it could not be determined if the report dates were the submission dates. In five of the six cases, the batch recording of costs spanned over a quarter-end, thus impacting the accuracy of Internews' quarterly financial reports to Pact, and Pact's quarterly financial reports to the funding agency.

Internews Response: As noted above Internews asserts that the documentation as submitted has been misinterpreted by the auditors due to mismatching of the recipient's expense period, collation and presentation of supporting cost documentation, and the level of sophistication of recipient's internal accounting for payments made on an advance/liquidation basis. Reporting to PACT was a combination of reconciled expenses as a function of allowable advance payments made to sub-recipients and new advance payments made pursuant to legitimate Payment-Advance procedures. Advances to sub-recipients are not "actual costs" and require subsequent reporting and reconciliation to qualify as allowable expenses. Notwithstanding PACT's procedures for accounting and reporting of this combination of reconciled expenses and new advances, Internews clearly identified the difference between the two categories of sub-recipient funding.

- *GL Details could not be readily provided to reconcile costs incurred for Consultants and Contractual Services lines of the Internews Project Supporting Schedule, which reconciled to the subaward line of the Pact special purpose financial statement. Since the time of this cooperative agreement, Internews converted to a new financial system and the former accounting system could no longer be actively queried. Internews was dependent on locating previously published and filed GL reports and were unable to readily provide the final version. Internews provided several reiterations of GL detail that did not reconcile to the Internews Project Supporting Schedule and research was necessary to ascertain the correct and final version. The initial GL detail provided contained significant variances to the Internews Project Supporting Schedule. After additional research, Internews' management provided a revised GL detail that did reconcile to the Internews Project Supporting Schedule, but could not identify the transactions that represented the difference from the previous submission. The amount of the difference is not questioned since Internews eventually provided the reconciled GL detail; however, we question the ability to rely on prior year records to show accurate GL detail.*

Internews Response: The auditor notes that this discrepancy in reporting was resolved by providing a subsequently located project cost report that was calculated after the issuance of Internews Network Audit Report – Financial and Federal Award Compliance Examination for the year ended December 31, 2010 dated August 25, 2011, Schedule 5, Finding 2010-1, Reporting of

Known Fraud (Afghanistan). This delay was a function of document revision issues with the generation and retention of cost report spreadsheets and placement in permanent audit files. The auditor questions the ability to rely on prior year records to show accurate GL detail. However, at the same time the auditor did choose to rely on provided records to perform the audit.

Significant Deficiency and Non-Compliance MDP NFR 2014-3: Inadequate Procurement Practices²

- *For two samples of ODCs, the effective date of the service agreement (as stipulated by the agreement) occurred and services commenced prior to the underlying procurement document being signed. The first instance was the rental of equipment where the service was actually being provided by a reseller with whom the primary provider had ceased trading. An agreement was in place with the original provider and the reseller continued to provide services prior to establishing communication and a new agreement. The sampled amount was payment for five months, three of which occurred prior to the execution of the agreement. Therefore, the cost of the service for the three months prior to execution of \$2,653 is deemed unsupported. (Note: This sample is unsupported in full as a result of the subsequent bullet below regarding competition; therefore, this unsupported amount is not included in the total amount reported above.) The second instance was for internet fees and an explanation was not provided. The costs sampled in this instance were for a period of service occurring in full prior to the execution of the agreement; therefore the costs of \$21 are questioned in full. A policy was not in place to limit the acceptance of services prior to execution of the underlying procurement document. This resulted in unburdened unsupported costs of \$21. The burdened amount associated with these samples totals \$24, and \$24 with relevant fees.*

Internews Response: Note that no payment was made to the vendor until such time as a valid contract was executed and was consistent with Internews procurement policy. This should be viewed as the correct and prudent financial outcome during this brief period when the original sub-vendor ceased operations. No costs were charged to PACT during this time. While correct that services were provided by the vendor during this time both the vendor and Internews agreed that the most responsible course was to consummate an agreement as quickly as possible and avoid an interruption in services critical to the program implementation. Internews asserts that this documentation is sufficient to establish the cost and is reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of a significant deficiency and non-compliance.

² Auditor's Note: In Management's Response, management mistakenly used the header to refer to this finding as MDP NFR 2014-2: General Ledger Management and Reporting Issues. The findings described under this header, and responded to by management, correspond to MDP NFR 2014-3: Inadequate Procurement Practices, and as such this was changed from management's verbatim response.

- *In two samples, the policy of obtaining quotations and documenting evidence of proper bidding procedures did not occur, as follows:*
 - *For one sample of a procurement of rented equipment (ODCs) in the amount of \$4,421, insufficient evidence was provided for the required three bids. A text file was provided stating that three bids were obtained but evidence of the bids was not provided. The text file was a copy of an email from a Resident Technical Advisor that contained a list of three company names and their proposed overall cost. This resulted in unburdened unsupported costs of \$4,421. The associated burdened amount totaled \$4,870, and \$4,972 with relevant fees; and*
 - *In one sample for the procurement of Contractual Services in the amount of \$10,000, no evidence of the required two bids was provided. During the course of follow-up, an explanation was provided that a sole source procurement was performed and an email from the individual requesting the procurement was provided, which requested a specific vendor based on expertise. However, the required sole source justification memo completed by the procuring official was not attached to the Procurement Approval Request form and could not be otherwise provided. This resulted in unburdened unsupported costs of \$10,000. The burdened costs associated with this sample are \$11,037, and \$11,274 with relevant fees.*

Internews Response: In this first sample the auditors are suggesting that there was insufficient evidence provided in support of competing a USD 4,421 procurement. The then applicable procurement policy provided the auditors clearly indicated that for a procurement of this dollar amount the obtaining of three valid bids by the Resident Technical Advisor was sufficient to comply with the aforementioned policy. Whether the auditor agrees or disagrees with the policy in effect at that time is not relevant to the expense being deemed allowable. Internews asserts that this documentation is sufficient to establish the cost and is reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of a significant deficiency and non-compliance.

In the second sample, the auditors are questioning costs associated with the sole source procurement with Abdul Basir Hqmal Construction Company in the amount of USD 10,000. Internews asserts that this acquisition (procurement of deliver of a TV tower in Farah) was properly entered into, and that the absence of competition was justified within the parameters of our subaward from PACT and properly documented at the time we entered into this agreement. The comment that the “sole source justification memo” is missing is incorrect. The memo is in fact the email provided. The e-mail supports our contention that Internews promoted competition to the maximum extent possible. However there were occasions, particularly in the rapidly changing security environment, when urgent needs and/or the unique capabilities of a subcontractor, made competition impractical. The contemporaneous explanation, a copy of which was provided to the auditor, for the sole-sourcing of this procurement was described as follows:

“Please find attached PAR for the Delivery of TV Tower Pieces from PRT base to project site on top of TV Mountain in Farah Province, the supplier BHCC was the only

supplier who has already workforce in the site and was also recommended by the main contractor of TV tower project (ASTER Infrastructure) to provide this service for Internews Afghanistan.”

The expense of delivery of the tower, was a de minimis portion of the total equipment procurement of in excess of USD 2.0 million, all of which was supported by required procurement documentation. This is not being questioned by the auditors. A copy of the specific Procurement Approval Request (PAR) form dated 4 DEC 2008 was provided the auditor. The sole source justification referenced is the quoted language above from the e-mail dated 30 NOV 2008.

Therefore, the contract in question has sufficient detailed and contemporaneous negotiation information, (which we previously submitted to the auditors) that fully explain the reasons why the procurement was not competed. The auditors state that the justification in the materials is insufficient. However, they offer no substantive basis for rejecting the justification.

Also, the applicable revision of Office of Management and Budget (OMB) Circular No. A-133, re-titled "Audits of States, Local Governments, and Non-Profit Organizations," establishes uniform audit requirements for non-Federal entities that administer Federal awards and implements the Single Audit Act Amendments of 1996, which were signed into law on July 5, 1996 (Public Law 104-156). In that, the definition of “questioned cost” is generally understood to mean a cost that is questioned by the auditor because of an audit finding:

- (1) Which resulted from a violation or possible violation of a provision of a 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 the costs, 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.

The auditor cannot be questioning this cost because of a violation or possible violation of any law, regulation or agreement, nor are they claiming the cost incurred was unreasonable. Therefore, the sole reason [being] suggested is that the cost was not supported by adequate documentation (sole source justification). Again, it is our contention that the documentation as provided is adequate.

According to 48 CFR 2.101 (Title 48, Federal Acquisition Regulations System; Chapter 1, Federal Acquisition Regulation; Subchapter A, General; Part 2, Definitions of Words and Terms; Subpart 2.1, Definitions), sole source acquisition means “a contract for the purchase of supplies or services that is entered into or proposed to be entered into by an agency after soliciting and negotiating with only one source.” Justification for such an acquisition is generally expected to apply in those situations where (1) an unusual and compelling urgency precludes full and open competition, and (2) delay in award of a contract would result in serious

injury, financial or other, to the Government. This transportation subcontractor had previously and successfully provided services to the primary Internews contractor, and in the interest of avoiding delay and injury to the Government, the sole source delivery agreement was awarded.

Internews asserts that this documentation is sufficient to establish the cost is reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of a significant deficiency and non-compliance.

**APPENDIX C –
AUDITOR’S EVALUATION OF PRIVATE AGENCIES
COLLABORATING TOGETHER, INC.’s RESPONSE TO
AUDIT REPORT**

Kearney & Company, P.C. (referred to as “Kearney,” “we,” and “our” in this document) appreciates the thorough and thoughtful responses to the audit report provided by Private Agencies Collaborating Together, Inc. (Pact) management. Pact disagreed with the majority of the issues presented and agreed with a limited number of the issues presented. Kearney presents a complete evaluation to the full response from Pact management below.

Material Weakness/Non-Compliance
MDP NFR 2014-1: Inadequate Supporting Documentation

Transactions performed by Pact (Travel, Transportation and Per Diem line item):

For one instance related to travel, insufficient receipts were provided to support costs incurred. This condition resulted in unburdened unsupported costs of \$2,101. The burdened costs associated with this instance are \$2,890.

Auditor’s Note: Management did not provide a response to this portion of the finding.

Transactions performed by Internews (Sub-grants, Subcontracts line item):

For 58 instances, Pact did not obtain sufficient supporting documentation from Internews and Internews could not provide sufficient documentation to adequately support the costs incurred. The resulting unburdened questioned costs totaled \$232,283 (\$259,694 burdened and \$265,292 burdened with Pact’s sub-grant handling fee).

- *In one instance under Personnel, timesheets were not provided to support a payroll transaction. This transaction was related to local labor and encompassed payroll costs for 30 individuals for which no timesheets were provided to support the hours paid or to support that the hours were approved by a supervisor. This condition resulted in unburdened unsupported costs associated of \$12,343, which is the full sampled amount. The burdened costs associated with this instance are \$22,023 (including fringe and overhead), and \$22,488 with relevant fees.*

Management’s Response: Regarding this finding we recommended that the auditor accept our ability to provide testimonial evidence from affected individuals in lieu of the requested timesheets. Audit evidence can include physical evidence, testimonial material, and analysis of information. Together, we contend that we were able to make an authoritative statement that these payments were accurate based on hours actually worked, approved by the supervisors in question, and allowable under the terms of our agreement with PACT. Both precedent and subsequent payments were fully supported by documentary evidence, which proved that the approval and reporting procedures were in place and a single summary timesheet had been inadvertently misplaced.

Auditor’s Evaluation of Management’s Response: Per OMB A-133, “Questioned cost means a cost that is questioned by the auditor because of an audit finding: (2) Where the costs, at the time of the audit, are not supported by adequate documentation.” Further, as stated in the finding criteria, 22 Code of Federal Regulations (CFR), Section 226.53, *Retention and Access*

Requirements for Records, states “(b) Financial records, 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 USAID.” Kearney contends that approved timesheets are records pertinent to the award to support labor costs and as a matter of professional judgment, could not rely on testimony of affected employees. Further, it was not noted that management offered testimonial evidence during fieldwork. Kearney was required to question any and all costs that we deemed not supported by adequate documentation.

- *For one instance under Personnel, documentation provided did not reconcile to our sample amount and explanations were not provided. The documentation provided included multiple employees and we were unable to identify the sample amount. As such, the sample amount is unsupported in the unburdened amount of \$371, with burdened costs (including fringe and overhead) totaling \$658 and \$669 with relevant fees.*

Management’s Response: This de minimis amount identified by the auditor was a function of a conversion between local currency (AFS) and USD. Minor calculation differences across multiple employee payment records produced the total amount of USD 371. The general intent and nature of the expense should be regarded as reasonable and allowable under the terms of the agreement. Circular A-122 states in part that “...a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.” We believe that not accepting a minor departure from the auditor’s requirement of perfect documentation regarding this expense is unduly burdensome, and ignores the other equally important basic considerations of the General Principles of A-122.

Auditor’s Evaluation of Management’s Response: Kearney understands the difference between the amounts recorded in the general ledger and the underlying support may have been caused by conversion differences; however, sufficient accounting records would show the trail of the calculations to arrive at the dollar amount recorded. Kearney is not questioning the amounts on the basis of reasonable, but on the basis of accuracy. The insufficient accounting records did not allow us to make a determination of the costs being accurate, or any portion of the costs being accurate. Kearney was required to question any and all costs that we deemed not supported by adequate documentation.

- *In five instances, the amount paid to the employee did not reconcile to the amount to be paid per the personnel or personal service contract (PSC) records, as follows:*
 - *In one instance under Consultants, the not-to-exceed amount as documented in the PSC was exceeded by \$945, thus this unburdened amount is unsupported. The burdened unsupported costs associated with this sample are \$1,272, and \$1,292 with relevant fees.*
 - *In two instances under Personnel, one for the original payroll and one for an adjustment to that payroll, the total amount recorded was incorrect. In the original payroll transaction, the employee was underpaid based on the hourly rate*

- per his employee agreement. Management identified this error and made an adjustment. The adjustment was greater than the amount calculated to be the underpayment of the original payroll and the difference was not explained by management or by the support for the adjustment. The net amount of these two transactions equates to a calculated overpayment \$256 and thus an unsupported unburdened amount of \$256. The associated burdened unsupported costs (including fringe and overhead) totals \$454, and \$464 with relevant fees.*
- *In one instance under Personnel, adequate documentation was not provided to support the pay rate paid. The hourly pay rate paid did not reconcile to the annual salary per our calculation. The individual was paid at \$.43 an hour more than the calculated hourly pay rate and this difference was not explained. This result in unburdened unsupported costs of \$17. The burdened unsupported costs (including fringe and overhead) of this sample totals \$30, and \$31 with relevant fees.*
 - *In one instance under ODCs related to gardener's wages, the wages paid did not reconcile to the underlying order. The wages were for temporary work procured via a purchase order mechanism, not an employment agreement, and thus appropriately classified as ODCs; however, the wages paid did not match the approved order, causing unburdened unsupported costs of (\$8). The burdened unsupported costs total (\$9), and (\$9) with relevant fees.*

Management's Response: These reported de minimis amounts totaling a net USD 1,210 are due to an inability to locate certain individual personnel and personal service contract pay rate records in the Kabul office archives. The general intent and nature of the expenses should be regarded as reasonable and allowable under the terms of the agreement. Common sense and normal business practices dictate that there will be minor divergences from previously established pay rates due to exchange rate conversions, very minor arithmetic errors, and occasional failures to memorialize agreed upon pay rate adjustments.

Auditor's Evaluation of Management's Response: Kearney understands that human error and divergences may occur in normal business practices. However, as stated in the finding criteria, 22 CFR Section 226.53, *Retention and Access Requirements for Records*, states "(b) Financial records, 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 USAID." Kearney deems personnel and personal service contract pay rate records to be records pertinent to the award to support labor related costs. Kearney was required to question any and all costs that we deemed not supported by adequate documentation.

- *For five instances under Personnel, an employment agreement, personnel record or freelance contract to substantiate the pay rate paid could not be provided. A USAID budget document was provided; however, we could not locate the associated rates or specific personnel for these samples in order to re-calculate the transactions, resulting in unburdened unsupported costs of \$1,318. Further, included in this unsupported amount is a \$2 miscalculation of the amount due per the exchange rate in one sample. The burdened costs (including fringe and overhead) associated with these samples are*

\$2,333, and \$2,380 with relevant fees.

Management’s Response: These reported de minimis amounts are due to an inability to locate certain individual personnel and personal service contract pay rate records in the Kabul office archives. The general intent and nature of the expenses should be regarded as reasonable and allowable under the terms of the agreement. Circular A-122 states in part that “... a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.” We believe that not accepting a minor departure from the auditor’s requirement of perfect documentation regarding this expense is unduly burdensome, and ignores the other equally important basic considerations of the General Principles of A-122.

Auditor’s Evaluation of Management’s Response: Kearney understands that human error and divergences may occur in normal business practices. However, as stated in the finding criteria, 22 CFR Section 226.53, Retention and Access Requirements for Records, states “(b) Financial records, 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 USAID.” Kearney deems personnel and personal service contract pay rate records to be records pertinent to the award to support labor related costs. Kearney was required to question any and all costs that we deemed not supported by adequate documentation.

- *For two instances under Personnel, the sampled amount was a medical allowance. While the allowance amount was appropriate based on benefit policies, an employment agreement or personnel record to substantiate eligibility could not be provided, thus [it] could not be determined the individual’s receipt of the allowance was appropriate. This resulted in unburdened unsupported costs of \$19. The burdened costs (including fringe and overhead) associated with these samples are \$35, and \$36 with relevant fees.*

Management’s Response: The auditor has determined that eligibility for the \$19 medical allowance is contingent upon the written terms of an employment agreement or personnel records, which was not required by policy or rule. This ignores the real-world practicalities associated with medical treatment afforded the employee and this specific financial transaction.

Auditor’s Evaluation of Management’s Response: As stated in the finding criteria, 22 CFR, Section 226.53, *Retention and Access Requirements for Records*, states “(b) Financial records, 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 USAID.” Kearney deems employment agreements and personnel records to be records pertinent to the award to support benefit related costs. Kearney was required to question any and all costs that we deemed not supported by adequate documentation.

- *In one instance under Consultants, the PSC agreement in effect at the time of the*

sampled transaction was not provided. An agreement was provided; however, it was effective after the pay period sampled. As such we were unable to validate the pay rate paid as being appropriate and because no agreement could be provided that preceded the pay period sampled, we deemed the transaction unsupported in full for the unburdened amount of \$2,827. The burdened costs (including fringe and overhead) associated with this sample are \$4,993, and \$5,098 with relevant fees.

Management's Response: The auditor was informed that the sampled transaction was a function of an agreed upon advance payment made to the consultant due to the nature of the assignment. Correctly accounted for, this advance payment was applied against the total maximum value of the agreement.

Auditor's Evaluation of Management's Response: The PSC agreement provided was effective for a period starting November 22, 2007 and was signed November 22, 2007. The general voucher provided, dated October 23, 2007, describes the transactions as being for services rendered in the period of September through October 2007. This evidence contradicts management's assertion that this was an advance payment for the services to be rendered under the provided agreement. Further, if this was an advance in accordance with the agreement provided, without agreement of the rate occurring until November 22, 2007 and without support for how the amount advanced was determined, we are unable to conclude that the sampled transaction was adequately supported.

- In two instances for ODCs, insufficient receipts were provided. Receipts were not provided to support costs incurred, including a lunch provided for staff and airfare related to home leave for an employee. We also note there was no approval evident on the home leave voucher. As such, the samples are unsupported in full in the unburdened amount of \$1,508, with burdened costs of \$1,670, and \$1,711 with relevant fees.*

Management's Response: As previously explained to the auditor available receipts were a personal credit card statement (establishing proof that the vendors had been paid and services received) that was acceptable to Internews for this purpose of validating the expense of the lunch and home leave. Regarding the home leave, the employee was entitled to the reimbursement amount under the specific terms of the employment agreement which was provided to the auditors as prima facie evidence. No additional approval was required to effect the leave other than noting the proposed absence with the funder (which was provided).

Auditor's Evaluation of Management's Response: Kearney was unable to rely on credit card statement charges to validate that the costs claimed are allowable, allocable, and reasonable. Kearney does not believe that this is a strong internal control practice exercised by management; however, we will defer to the contracting officer to determine whether costs will be unallowable.

- For three instances under ODCs, documentation provided did not reconcile to our sample amount and explanations were not provided. Incorrect documentation was provided and we did not obtain sufficient explanation. A summary voucher was provided; however, amounts did not reconcile to the sample amounts selected for testing. The three samples selected were reclassification transactions and it appears only the*

original transaction documentation was provided, which did not reconcile to or explain the sampled transactions. Based on this, each sample is unsupported in full for an unburdened amount of \$82, with burdened costs totaling \$90, and \$92 with relevant fees.

Management’s Response: This questioned de minimis amount of USD 82 identified by the auditor was a function of a conversion between local currency (AFS) and USD. Minor calculation differences across the three sampled transaction records produced the total amount of the difference.

Auditor’s Evaluation of Management’s Response: Kearney understands the difference between the amounts recorded in the general ledger and the underlying support may have been caused by conversion differences; however, sufficient accounting records would show the trail of the calculations to arrive at the dollar amount recorded. The insufficient accounting records did not allow us to make a determination of the costs being accurate, or any portion of the costs being accurate. Kearney was required to question any and all costs that we deemed not supported by adequate documentation.

- *In four instances under ODCs, an employee agreement, contract, or other underlying agreement could not be provided to support costs incurred, and management did not provide explanation; as such, each sample is questioned in full as unsupported:*
 - *For one instance, an agreement was not provided to support the clerk wages, causing unburdened unsupported costs of \$20, with burdened costs totaling \$22 and \$23 with relevant fees.*
 - *For three instances, allowances were paid; however, it could not be determined that the allowances were appropriate. In one case, a housing allowance was paid; however, no employment agreement or housing agreement could be provided to show eligibility and accuracy causing \$850 to be unsupported. In the other two instances, a car rental payment in the form of an allowance was made to employees; however, no documentation was provided to support the monthly allowance amount was accurate totaling \$2,400. As such, \$3,250 unburdened costs are deemed unsupported, with the burdened amount totaling \$3,597 and \$3,689 with relevant fees.*

Management’s Response: Regarding these instances the reported de minimis amount of USD 20 was due to an inability to locate the specific individual personnel pay rate record for the period in question in the Kabul office archives. Further the claim that a housing allowance of USD 850 was unsupported ignores the fact of approval by the Country Director. Additional supporting information requested by the auditor was not provided since this procurement action was below the documentation policy limits for such a reimbursement. Finally, the auditor is claiming there was no documentation provided in support of reimbursement for use of employee-owned vehicles. “Vehicle Rent” reports were provided for all reimbursement requests and included details of employee to be reimbursed, rental rates, adjustments if any, and approvals and verifications by the employee and procurement officer and administrative staff.

The general intent and nature of the expenses should be regarded as reasonable and allowable

under these circumstances and under the terms of the agreement. Circular A-122 states in part that "...a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs." We believe that not accepting a minor departure from the auditor's requirement of perfect documentation regarding this expense is unduly burdensome, and ignores the other equally important basic considerations of the General Principles of A-122.

Auditor's Evaluation of Management's Response: As stated in the finding criteria, 22 CFR, Section 226.53, *Retention and Access Requirements for Records*, states "(b) Financial records, 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 USAID." Kearney deems individual personnel pay rate records and employment agreements to be records pertinent to the award to support labor and benefit related costs. As for the vehicle rent reports provided, while this does provide the information indicated in the response above, the finding indicates that "an employee agreement, contract, or other underlying agreement could not be provided to support costs incurred." Applicable to this instance as well, Kearney deems employment agreements to be records pertinent to the award to support benefit related costs. Kearney was required to question any and all costs that we deemed not supported by adequate documentation.

- *In one instance under Supplies, documentation provided did not reconcile to our sample amount and explanations were not provided. Documentation was provided to support the invoiced amount which did not reconcile to the sample amount. Also, payment was made prior to delivery of the goods and no subsequent validation of the receipt of goods was provided. As such, the entire sample amount is considered unsupported in unburdened amount of \$62,467, with a burdened amount of \$68,813 and \$70,471 with relevant fees.*

Management's Response: Documentation was provided regarding shipped goods supports total payments to vendor of USD 81,054.50, of which, as explained and documented, USD 62,466.50 was attributable to invoice numbers SI-100960 (6/14/2007), SI-101595 (8/6/2007), SI-101790 (8/22/2007) and CM-100103 (8/6/2007). No payments were made on unshipped (backordered) items with this transaction. The vendor required prepayment of these invoices and was clearly noted on the Purchase Order/Invoice. Journal entries provided the auditor indicated corrections made to original journal entries. Evidence of "original" purchase and payment per agreement payment schedule included in auditor Reference No. 93. Subsequent entries corrected allocation between Account 54808 (Outside Services), Account 54611 (Tangible Goods) and Account 54900 (Service Contracts).

Auditor's Evaluation of Management's Response: The response provided by management above is the same explanation that was provided during Fieldwork. The response and the support provided, considering the original payment, allocation journal entries and correcting journal entries, does not allow for the amount of costs claimed to be clearly identified and recalculated to the sampled amount.

- *In one instance under Supplies, documentation provided did not reconcile to our sample amount and explanations were not provided. An invoice was provided to support the entire amount of costs incurred including the supplies, other tangible items, and related shipping, which was greater in total than our sample amount and it could not be determined which items on the invoice comprised the sample. A subsequent reclassification journal entry was provided to show the allocation of the invoice costs between supplies, tangible items and shipping accounts; however, the journal entry shows a supplies amount of \$31,317 and the sample amount for supplies is \$34,585. Thus, the difference is considered unsupported. The unsupported unburdened costs are \$3,268, with burdened costs totaling \$3,630 and \$3,707 with relevant fees.*

Management's Response: The auditor is claiming an overpayment was made to the vendor because items purchased were not shipped. This is due to the auditor being unable to trace all items shipped to (a) equipment and (b) supplies and (c) shipping general ledger accounts. There was no overpayment. Journal entries submitted provided evidence of "original" purchase and payment per agreement included in Sample 161 (and auditor Reference 91). The subsequent recode corrected the allocation between Account 54601 (Supplies), Account 54611 (Tangible Goods) and Account 54843 (Shipping). The Shipping account posted for USD 3,268 was not reviewed by the auditor.

Auditor's Evaluation of Management's Response: Kearney is not claiming an overpayment was made to the vendor because items purchased were not shipped. Such a statement is not made in the finding. We do contend that we were unable to trace the total amount paid as shown on the supporting invoice/payment documentation provided to (a) equipment, and (b) supplies, and (c) shipping general ledger accounts; of which our sample comprised only of the amount recorded to supplies. The response provided by management above is the same explanation that was provided during Fieldwork. The response and the support provided, considering the original payment and allocation journal entries, does not allow for recalculation to the sampled amount.

- *In four instances under Travel, insufficient receipts were provided to support sampled amounts. In two of these samples, the transactions were for international credit card fees and the cardholder statement was provided; however, we could not determine which charges the fees were associated with and management did not provide explanation. For the remaining two samples, only the payment voucher was provided to support a trip; no itineraries, receipts, or invoices were included to support the costs. The unburdened costs for these samples total \$1,863, with burdened costs totaling \$2,050, and \$2,086 with relevant fees.*

Management's Response: As previously explained to the auditor available receipts were a personal credit card statement (establishing proof that the vendors had been paid and services received) that was acceptable to Internews for this purpose of validating the referenced program travel expenses and authorized home leave. Regarding the home leave, the employee was entitled to the reimbursement amount under the specific terms of the employment agreement which was provided to the auditors as prima facie evidence. No additional approval was required to effect the leave other than noting the proposed absence with the funder (which was provided).

Auditor’s Evaluation of Management’s Response: Kearney was unable to rely on credit card statement charges to validate that the costs claimed are allowable, allocable, and reasonable. Kearney does not believe that this is a strong internal control practice exercised by management; however, we will defer to the contracting officer to determine whether costs will be unallowable.

- *In four instances under Contractual Services, we were unable to verify the accuracy of invoiced amounts based on contract documentation provided. All four transactions were periodic payments to the same vendor and thus the same contract documentation was referenced for each. A change order was referenced in the invoices; however, management was unable to provide the change order. As such, \$56,086 unburdened costs are deemed unsupported, with the burdened amount totaling \$61,616, and \$62,602 with relevant fees.*

Management’s Response: This references a claim by the auditor that the entire series of payments to a security contractor are deemed unsupported. We provided evidence of the master agreement which included a maximum, not-to-exceed contract amount. While we were unable to provide the specific agreement form that evidenced the agreed upon monthly invoice amount, the maximum contract value was not exceeded. Competed procurement of the services followed standard policy and procedures, and the specific procurement action was approved by the funder. More to the point the nature of the procurement was dictated by critical personal security issues faced by the program that had not been foreseen during the original program design.

As the auditor was skeptical about the entire series of payments to the contractor based on the absence of reconciling source documentation, it might have been more practical to obtain evidence from the affected third party through an auditor-designed confirmation procedure about the allowable expense assertions made by management. This could have provided the auditor with more reliable evidence that would have been superior to anything provided by Internews. It is our belief that this evidence provided by confirmation would have reduced audit risk to an acceptably low level.

Auditor’s Evaluation of Management’s Response: Kearney does not claim that every payment made to this security contractor is unsupported. We question an unburdened amount of \$56,086, while we note the total amount of payments made to this contractor over the life of the contract amounted to over \$992,000. Management acknowledges that they were unable to provide the specific agreement form that evidenced the agreed upon monthly invoice amount for the four invoices totaling \$56,086 in question. As required by 22 CFR Section 226.53, *Retention and Access Requirements for Records*, “(b) Financial records, 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 USAID.” Kearney deems specific agreement forms and change order records supporting master agreements to be records pertinent to the award to support related costs. The onus is on management is retain adequate supporting documentation, not the third party

contractor. Kearney was required to question any and all costs that we deemed not supported by adequate documentation.

- *In one instance under Consultants, insufficient documentation to support the independent contractor's qualifications, and as such we were unable to determine that the payroll transaction was reasonable, resulting in unburdened ineligible costs of \$1,000. The burdened costs (including fringe and overhead) associated with this sample are \$1,766, and \$1,809 with relevant fees.*

Management's Response: The auditor notes that due to the absence of a consultant's resume requested to confirm the contractor's qualifications, the cost incurred is deemed ineligible. As an alternative form of proof we offered to submit the contractor's work product to confirm the qualifications. Audit evidence can include physical evidence, testimonial material, and analysis of information, which in this case the auditor choose not to review. Internews asserts that this documentation would have been sufficient to establish the cost as reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of ineligible costs.

Auditor's Evaluation of Management's Response: The documentation identified in the response above was not provided to Kearney to support the costs incurred. The only follow-up documentation provided during Fieldwork was a contract addendum that supported a change in fee to \$1,583 and an explanation that the sample amount (\$1,000) was an advance portion of that amount. No additional documentation was provided to support the costs or that the contractor had sufficient experience or knowledge to complete the work required.

- *In all 23 samples of Internews' Sub-grant costs, insufficient documentation was provided to support the costs reported by the sub-grantee on their monthly financial reports. Each sample had discrepancies between the monthly financial report amount reported by the sub-grantee and the supporting documentation provided, primarily resulting from missing vouchers and a lack of labor support. These instances resulted in burdened unsupported costs of \$84,651 (\$86,653 burdened with Pact's sub-grant handling fee). The unsupported costs were burdened with Internews' NICRA rates in Internews GL; therefore, this finding applies only the PACT Sub- grant handling fee.*

Management's Response: In this finding the auditors are questioning the adequacy of supporting documentation on a small portion of costs incurred by the three primary Internews subawardees (the largest of which were two local Afghanistan entities). They state that they received a response for all 23 samples requested (requiring the supply to the auditors of documentation in excess of 1,700 transactions), but contend that each sample had discrepancies between the monthly financial reporting amount and the support provided. Internews asserts that the documentation as submitted has been misinterpreted by the auditors due to mismatching of the recipient's expense period, collation and presentation of supporting cost documentation, and the level of sophistication of recipient's internal accounting for payments made on an advance/liquidation basis. The adequacy of the recipient's systems must be viewed in light of one of the primary and key goals of the program. Internews was directed by the funder to

pursue the following goals through a set of core activities to strengthen the independent media sector that included:

- Production and distribution of essential news and information to a broad, national audience, through diverse, locally owned and operated media outlets;
- Training and support for management, administration, and financial strength of media outlets. This included developing a critical mass of Afghans with management and other skills through state-of-the-art training, technical assistance, and participant training. Furthermore, strengthening Afghan capacity building institutions in the public, private, NGO and educational sectors, allowing Afghans to provide sustained capacity building over the long-term.
- Support for creation, dissemination, and adoption of standards of practice in journalism and media conduct, conforming to international standards;
- Support and training for media outlets to produce a variety of programming that helps media, through in-depth and investigative reporting, to advance goals of governmental transparency and accountability, anti-corruption, and political participation and reform;
- Support for Afghan media and media support institutions to gain solid technical knowledge to build and maintain the broadcast sector, with a focus on radio;
- Training for Afghan lawyers and journalists in understanding and advocating for fair media regulation, freedom of expression, and access to information;
- Support for the creation and growth of media associations and supporting institutions;
- Access to media training, jobs, and educational opportunities to women and youth;
- Advocacy and training to government officials in understanding the role of independent media in an open society.

Therefore one of our key objectives was to conduct these activities by supporting a number of local media assistance organizations (including the aforementioned Afghanistan subawardees), with a focus on developing Afghan institutional capacity and individual skills, and an intent to further the overall sustainability and growth of both Afghan media and its supporting institutions.

Again, our contention is that while ideal, the expectation of consistently achieving US standards of audit documentation from the local Afghanistan sub-recipients is unlikely.

Each subaward agreement contained the following clause regarding payments made in advance:

1. PAYMENT - ADVANCE (OCTOBER 1998)

(This provision is applicable when the recipient's accounting and financial management systems conform to the standards for funds control and accountability required under: the standard provision of this agreement entitled "Accounting, Audit, and Records", ADS Chapter 303.5.9 and 22 CFR 226.20 through 226.22.)

- (a) In accordance with the Standard Provision entitled "Payment Advances and Refund":
-

USAID funds shall not be commingled with other recipient owned or controlled funds; the recipient shall deposit all USAID cash advances in a separate bank account and shall make all disbursements for goods and services from this account.

(b) 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 grantee as close as is administratively feasible to the actual disbursements by the grantee for program costs. Advances made by the recipient to subrecipients or the recipient's field organizations shall conform substantially to the same standards of timing and amount as apply to cash advances by USAID to the recipient.

Procedures

(c) After receipt of the initial advance, the recipient 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 recipient 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). At the end of each quarter the recipient shall submit a SF 1034 (marked "Liquidation of Advances") to liquidate the advances of the previous quarter. The recipient 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.

Internews asserts that this documentation is sufficient to establish the cost is reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of an activity or transaction that rises to the level of a material weakness or non-compliance with the provisions of the subaward agreement and applicable laws and regulations.

Auditor's Evaluation of Management's Response: Kearney believes that the findings as written present a clear and unbiased depiction of the conditions that occurred. Sufficient accounting records would show the trail of the transactions to arrive at the dollar amount recorded in the general ledger and reported to the funder, going back to the source documentation that supports amounts being request for advance and amounts presented for liquidated. Sufficient and organized accounting records should also leave minimal room for misinterpretation and mismatching of supporting cost documentation.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States. Specifically, GAGAS, Section "Integrity", Paragraph 1.17, states:

"Public confidence in government is maintained and strengthened by auditors performing their professional responsibilities with integrity. Integrity includes auditors conducting their work with an attitude that is objective, fact-based, nonpartisan, and nonideological with regard to audited entities and users of the auditors' reports. Within the constraints of applicable

confidentiality laws, rules, or policies, communications with the audited entity, those charged with governance, and the individuals contracting for or requesting the audit are expected to be honest, candid, and constructive.”

The achievement of program goals, while notably important to the funder and to the taxpayer, is beyond the scope of the objectives of this financial audit.

Kearney contends that management is responsible to uphold documentation standards prescribed by US laws and regulations, and as stipulated by agreements with the US Government, regardless of where program objectives are being implemented.

Overall, Internews asserts that documentation is “sufficient to establish the cost is reimbursable under the agreement terms and conditions requests the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of an activity or transaction that rises to the level of a material weakness or non-compliance with the provisions of the subaward agreement and applicable laws and regulations.” For the reasons outlined above by specific finding, Kearney contends that adequate documentation was not provided. The definition of a material weakness is “a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.” Management’s deficient documentation maintenance/retention practices, in 58 individual instances across many different cost categories and business processes, collectively meet the level of material weakness. Further, such deficient documentation maintenance/retention practices result general non-compliance with 22 CFR Section 226.53, *Retention and Access Requirements for Records*.

Significant Deficiency

MDP NFR 2014-2: General Ledger (GL) Management and Reporting Issues

- *In one instance, the transaction is for a direct adjustment for a loss resulting from an overpayment to an affiliate radio station; however, support shows that the original overpayment occurred prior to the start of the cooperative agreement with USAID. We conclude this adjustment is not allocable to this cooperative agreement and thus deem the transaction ineligible in the unburdened amount of \$1,329. The burdened amount associated with this instance totals \$1,464, and \$1,495 with relevant fees.*

Management’s Response: We agree with this assessment.

Auditor’s Evaluation of Management’s Response: None.

- *Accurate costs were not recorded in the general ledger in a timely manner, thus impacting the accuracy of reporting to USAID on a quarterly basis. Pact provided advances to Internews based on estimated needs, recorded the estimated costs in the general ledger and relied on the quarterly financial reports from Internews to record*

actual costs in the general ledger. This was a similar process from Internews to their sub-recipients; however, Internews required sub-recipients to provide monthly financial reports by the 15th day after the end of each month. In six of 23 sampled transactions from the Internews general ledger that resulted from sub-recipients reported costs, costs were recorded in batches (several months at a time) based on either untimely recording or late submissions of monthly financial reports by the sub-recipients. Dates were typed in the monthly reports but it could not be determined if the report dates were the submission dates. In five of the six cases, the batch recording of costs spanned over a quarter-end, thus impacting the accuracy of Internews' quarterly financial reports to Pact, and Pact's quarterly financial reports to the funding agency.

Management's Response: As noted above Internews asserts that the documentation as submitted has been misinterpreted by the auditors due to mismatching of the recipient's expense period, collation and presentation of supporting cost documentation, and the level of sophistication of recipient's internal accounting for payments made on an advance/liquidation basis. Reporting to PACT was a combination of reconciled expenses as a function of allowable advance payments made to sub-recipients and new advance payments made pursuant to legitimate Payment-Advance procedures. Advances to sub-recipients are not "actual costs" and require subsequent reporting and reconciliation to qualify as allowable expenses. Notwithstanding PACT's procedures for accounting and reporting of this combination of reconciled expenses and new advances, Internews clearly identified the difference between the two categories of sub-recipient funding.

Auditor's Evaluation of Management's Response: Kearney disagrees with the response provided by management in that it does not clarify or explain the costs being recorded in batches. The documentation provided and the GL detail indicated costs associated with numerous months, as opposed to costs incurred on a monthly basis. The supporting documentation provided did not reconcile to the costs claimed and no reconciliation was provided to support that costs were reviewed after advances were made, even though these requests were made during Fieldwork. As the response above does not speak to or further explain the issue associated with costs claimed and recorded in batches, Kearney reiterates the finding related to untimely recordation of costs within the GL is valid.

- *GL Details could not be readily provided to reconcile costs incurred for Consultants and Contractual Services lines of the Internews Project Supporting Schedule, which reconciled to the subaward line of the Pact special purpose financial statement. Since the time of this cooperative agreement, Internews converted to a new financial system and the former accounting system could no longer be actively queried. Internews was dependent on locating previously published and filed GL reports and were unable to readily provide the final version. Internews provided several reiterations of GL detail that did not reconcile to the Internews Project Supporting Schedule and research was necessary to ascertain the correct and final version. The initial GL detail provided contained significant variances to the Internews Project Supporting Schedule. After additional research, Internews' management provided a revised GL detail that did reconcile to the Internews Project Supporting Schedule, but could not identify the transactions that represented the difference from the previous submission. The amount*

of the difference is not questioned since Internews eventually provided the reconciled GL detail; however, we question the ability to rely on prior year records to show accurate GL detail.

Management's Response: The auditor notes that this discrepancy in reporting was resolved by providing a subsequently located project cost report that was calculated after the issuance of Internews Network Audit Report – Financial and Federal Award Compliance Examination for the year ended December 31, 2010 dated August 25, 2011, Schedule 5, Finding 2010-1, Reporting of Known Fraud (Afghanistan). This delay was a function of document revision issues with the generation and retention of cost report spreadsheets and placement in permanent audit files. The auditor questions the ability to rely on prior year records to show accurate GL detail. However, at the same time the auditor did choose to rely on provided records to perform the audit.

Auditor's Evaluation of Management's Response: Kearney did not identify any information that would preclude management from being able to provide G/L detail that reconciles to the costs incurred. Kearney noted a finding as reconciled G/L detail was unable to be provided on initial request and took numerous versions to finally locate G/L detail that reconciled to the costs incurred on the SPFS. While Kearney questions the ability to rely on prior year records for accurate G/L detail, this does not cover the supporting documentation provided to support costs claimed. Kearney reiterates that this finding is valid as there were excessive delays in obtaining G/L detail that reconciled to the costs claimed on the SPFS.

Significant Deficiency and Non-Compliance MDP NFR 2014-3: Inadequate Procurement Practices

- *For two samples of ODCs, the effective date of the service agreement (as stipulated by the agreement) occurred and services commenced prior to the underlying procurement document being signed. The first instance was the rental of equipment where the service was actually being provided by a reseller with whom the primary provider had ceased trading. An agreement was in place with the original provider and the reseller continued to provide services prior to establishing communication and a new agreement. The sampled amount was payment for five months, three of which occurred prior to the execution of the agreement. Therefore, the cost of the service for the three months prior to execution of \$2,653 is deemed unsupported. (Note: This sample is unsupported in full as a result of the subsequent bullet below regarding competition; therefore, this unsupported amount is not included in the total amount reported above.) The second instance was for internet fees and an explanation was not provided. The costs sampled in this instance were for a period of service occurring in full prior to the execution of the agreement; therefore the costs of \$21 are questioned in full. A policy was not in place to limit the acceptance of services prior to execution of the underlying procurement document. This resulted in unburdened unsupported costs of \$21. The burdened amount associated with these samples totals \$24, and \$24 with relevant fees.*

Management's Response: Note that no payment was made to the vendor until such time as a valid contract was executed and was consistent with Internews procurement policy. This should be viewed as the correct and prudent financial outcome during this brief period when the original sub-vendor ceased operations. No costs were charged to PACT during this time. While correct that services were provided by the vendor during this time both the vendor and Internews agreed that the most responsible course was to consummate an agreement as quickly as possible and avoid an interruption in services critical to the program implementation. Internews asserts that this documentation is sufficient to establish the cost is reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of a significant deficiency and non-compliance.

Auditor's Evaluation of Management's Response: While no payment was made until an agreement was executed, the fact that the services were performed prior to any agreement being in place causes these costs to be unsupported. As these services were provided without any effective agreement in place, the costs associated with these services remain unsupported. Kearney contends that finding represents an internal control issue and Kearney will defer to the USAID contracting officer for further consideration of the questioned costs. Kearney would like to reiterate that all bullets under MDP NFR 2014-3 collectively represent a significant deficiency and non-compliance.

- *In two samples, the policy of obtaining quotations and documenting evidence of proper bidding procedures did not occur, as follows:*
 - *For one sample of a procurement of rented equipment (ODCs) in the amount of \$4,421, insufficient evidence was provided for the required three bids. A text file was provided stating that three bids were obtained but evidence of the bids was not provided. The text file was a copy of an email from a Resident Technical Advisor that contained a list of three company names and their proposed overall cost. This resulted in unburdened unsupported costs of \$4,421. The associated burdened amount totaled \$4,870, and \$4,972 with relevant fees*
 - *In one sample for the procurement of Contractual Services in the amount of \$10,000, no evidence of the required two bids was provided. During the course of follow-up, an explanation was provided that a sole source procurement was performed and an email from the individual requesting the procurement was provided, which requested a specific vendor based on expertise. However, the required sole source justification memo completed by the procuring official was not attached to the Procurement Approval Request form and could not be otherwise provided. This resulted in unburdened unsupported costs of \$10,000. The burdened costs associated with this sample are \$11,037, and \$11,274 with relevant fees.*

Management's Response: In this first sample the auditors are suggesting that there was insufficient evidence provided in support of competing a USD 4,421 procurement. The then applicable procurement policy provided the auditors clearly indicated that for a procurement of this dollar amount the obtaining of three valid bids by the Resident Technical Advisor was sufficient to comply with the aforementioned policy. Whether the auditor agrees or disagrees with the policy in effect at that time is not relevant to the expense being deemed allowable.

Internews asserts that this documentation is sufficient to establish the cost is reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of a significant deficiency and non-compliance.

In the second sample, the auditors are questioning costs associated with the sole source procurement with Abdul Basir Hqmal Construction Company in the amount of USD 10,000. Internews asserts that this acquisition (procurement of deliver of a TV tower in Farah) was properly entered into, and that the absence of competition was justified within the parameters of our subaward from PACT and properly documented at the time we entered into this agreement. The comment that the “sole source justification memo” is missing is incorrect. The memo is in fact the email provided. The email supports our contention that Internews promoted competition to the maximum extent possible. However there were occasions, particularly in the rapidly changing security environment, when urgent needs and/or the unique capabilities of a subcontractor, made competition impractical. The contemporaneous explanation, a copy of which was provided to the auditor, for the sole-sourcing of this procurement was described as follows:

“Please find attached PAR for the Delivery of TV Tower Pieces from PRT base to project site on top of TV Mountain in Farah Province, the supplier BHCC was the only supplier who has already workforce in the site and was also recommended by the main contractor of TV tower project (ASTER Infrastructure) to provide this service for Internews Afghanistan.”

The expense of delivery of the tower, was a de minimis portion of the total equipment procurement of in excess of USD 2.0 million, all of which was supported by required procurement documentation. This is not being questioned by the auditors. A copy of the specific Procurement Approval Request (PAR) form dated 4 DEC 2008 was provided the auditor. The sole source justification referenced is the quoted language above from the email dated 30 NOV 2008.

Therefore, the contract in question has sufficient detailed and contemporaneous negotiation information, (which we previously submitted to the auditors) that fully explain the reasons why the procurement was not competed. The auditors state that the justification in the materials is insufficient. However, they offer no substantive basis for rejecting the justification.

Also, the applicable revision of Office of Management and Budget (OMB) Circular No. A-133, re-titled "Audits of States, Local Governments, and Non-Profit Organizations," establishes uniform audit requirements for non-Federal entities that administer Federal awards and implements the Single Audit Act Amendments of 1996, which were signed into law on July 5, 1996 (Public Law 104-156). In that, the definition of “questioned cost” is generally understood to mean a cost that is questioned by the auditor because of an audit finding:

(1) Which resulted from a violation or possible violation of a provision of a 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 the costs, 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.

The auditor cannot be questioning this cost because of a violation or possible violation of any law, regulation or agreement, nor are they claiming the cost incurred was unreasonable. Therefore, the sole reason [being] suggested is that the cost was not supported by adequate documentation (sole source justification). Again, it is our contention that the documentation as provided is adequate.

According to 48 CFR 2.101 (Title 48, Federal Acquisition Regulations System; Chapter 1, Federal Acquisition Regulation; Subchapter A, General; Part 2, Definitions of Words and Terms; Subpart 2.1, Definitions), sole source acquisition means “a contract for the purchase of supplies or services that is entered into or proposed to be entered into by an agency after soliciting and negotiating with only one source.” Justification for such an acquisition is generally expected to apply in those situations where (1) an unusual and compelling urgency precludes full and open competition, and (2) delay in award of a contract would result in serious injury, financial or other, to the Government. This transportation subcontractor had previously and successfully provided services to the primary Internews contractor, and in the interest of avoiding delay and injury to the Government, the sole source delivery agreement was awarded.

Internews asserts that this documentation is sufficient to establish the cost is reimbursable under the agreement terms and conditions, and we request the amount, in total, be removed from the list of questioned costs in that there is no valid evidence of a significant deficiency and non-compliance.

Auditor’s Evaluation of Management’s Response: Kearney is not disagreeing with the policy in place for procurement. The documentation that was provided was not sufficient to show that the policy was followed. The documentation provided consisted only of a .txt file of an e-mail indicating that three bids were obtained and documentation supporting one of those three bids. No support was available or provided for the remaining two bids. Based upon this inconsistency/lack of supporting documentation, these costs remain unsupported.

For the sole source procurement, the explanation provided includes the same information that was provided to Kearney during Fieldwork. As stated in the finding criteria, the Internews Network Procurement & Property Management Policies states, “In a sole-source procurement, the bid requirements of section 1.4 of this policy should be substituted with a memorandum-to-file, completed by the procuring employee, that justifies a reasonable exception(s) to these bid requirements. This memorandum should be attached to the pertinent Procurement Approval Request (PAR) form.” Kearney contends that the e-mail provided as sole source justification is not adequate justification completed by the procuring employee; therefore, the finding remains. The email is a request for a specific vendor based on availability and a recommendation, and not a justification by the procuring official that the situation entails: (1) an unusual and compelling urgency precluding full and open competition, or (2) delay in award of the contract would result

in serious injury, financial or other, to the Government. Kearney would like to reiterate that all bullets under MDP NFR 2014-3 collectively represent a significant deficiency and non-compliance.

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