# SIGAR

**Special Inspector General for Afghanistan Reconstruction**

SIGAR 16-25 Financial Audit

# Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by the HALO Trust

MARCH 2016

SIGAR 16-25-FA/Demining Activities

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

March 2016

**Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by the HALO Trust**

SIGAR 16-25-FA

### WHAT THE AUDIT REVIEWED

Between April 1, 2011, and April 1, 2013, the Department of State's (State) Office of Weapons Removal and Abatement awarded five grants totaling more than $14.7 million to the HALO Trust (HALO) to support demining activities in Afghanistan. HALO is a humanitarian organization headquartered in Scotland that has worked on mine clearance and technical innovation for more than two decades. The grants were intended to (1) protect victims of conflict, (2) restore access to land and infrastructure, (3) develop host-nation capacity, and (4) improve conventional weapons stockpile security and management practices.

SIGAR's financial audit, performed by Williams, Adley & Company-DC, LLP (Williams Adley), reviewed $14,763,900 in expenditures charged to the five grants between April 1, 2011, and March 31, 2015. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in HALO's internal controls related to the grants; (2) identify and report on instances of material noncompliance with the terms of the grants and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether HALO has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of HALO's Special Purpose Financial Statement. See Williams Adley's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

### WHAT THE AUDIT FOUND

Williams Adley identified five deficiencies in HALO's internal controls, one of which was considered a material weakness and two others significant deficiencies, and nine instances of noncompliance with grant terms and laws or regulations, one of which was considered a material instance of noncompliance. Specifically, Williams Adley found that HALO used an unsupported allocation methodology to determine payroll costs for individuals working on multiple projects. Additionally, HALO could not provide adequate supporting documentation for vehicle purchase, maintenance, and fuel costs. Williams Adley also found that HALO did not obtain prior approval before exceeding State's 10 percent threshold for transferring funds between budget line items.

As a result of these internal control deficiencies and instances of noncompliance, Williams Adley identified $63,871 in ineligible costs—costs prohibited by the grants, applicable laws, or regulations—and $160,904 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

| Category | Ineligible | Unsupported | Total Questioned Costs |
|---|---|---|---|
| Personnel | $0 | $132,204 | $132,204 |
| Equipment | $38,781 | $0 | $38,781 |
| Supplies | $7,026 | $19,135 | $26,161 |
| Indirect Costs | $2,956 | $9,565 | $12,521 |
| Total Budget Overage | $15,108 | $0 | $15,108 |
| **Totals** | **$63,871** | **$160,904** | **$224,775** |

Williams Adley obtained and reviewed three prior Office of Management and Budget A-133 reports applicable to the scope of this audit. Williams Adley identified five prior audit findings and determined that HALO had properly addressed two of the findings. HALO has not properly addressed prior audit findings related to the payroll system and procurement procedures. Williams Adley identified similar findings in this audit.

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

### WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, $224,775 in total questioned costs identified in the report.**
2. **Advise HALO to address the report's five internal control findings.**
3. **Advise HALO to address the report's nine noncompliance findings.**

March 23, 2016

The Honorable John F. Kerry
Secretary of State

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

We contracted with Williams, Adley & Company-DC, LLP (Williams Adley) to audit the costs incurred by the HALO Trust (HALO) under five Department of State (State) grants.[1] HALO is a humanitarian organization headquartered in Scotland that has worked on mine clearance and technical innovation for more than two decades. Williams Adley's audit covered $14,763,900 in expenditures incurred from April 1, 2011, through March 31, 2015. Our contract with Williams Adley required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. **Determine the allowability of and recover, as appropriate, $224,775 in total questioned costs identified in the report.**
2. **Advise HALO to address the report's five internal control findings.**
3. **Advise HALO to address the report's nine noncompliance findings.**

The results of Williams Adley's audit are detailed in the attached report. We reviewed Williams Adley's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the HALO Trust's Special Purpose Financial Statement. We also express no opinion on the effectiveness of the HALO Trust's internal control or compliance with the grants, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-080)

[1] State awarded grants numbered S-PMWRA-11-GR-0016, S-PMWRA-12-GR-1007, S-PMWRA-12-GR-1009, S-PMWRA-13-GR-1004, and S-PMWRA-13-GR-1006 to HALO to support demining activities in Afghanistan. The grants were intended to (1) protect victims of conflict, (2) restore access to land and infrastructure, (3) develop host-nation capacity, and (4) improve conventional weapons stockpile security and management practices.

**SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION**

# FINANCIAL AUDIT OF COSTS INCURRED BY Hazardous Areas Life-Support Trust Organization (HALO)

Grants:

S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006

United States Department of State

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

For the period of:

April 1, 2011 to March 31, 2015

Submitted by

WILLIAMS ADLEY

February 5, 2016

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# Transmittal Letter

February 5, 2016

Leadership Team
Hazardous Areas Life-Support Trust Organization
Washington, DC

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

We hereby provide to you our final report, which reflects results from the procedures we completed during the course of our audit of the Hazardous Areas Life-Support Trust Organization (HALO) grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 with the United States Department of State (USDoS) for its Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) program.

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

On December 9, 2015, we provided SIGAR a draft report reflecting our audit procedures and results. HALO received a copy of the report on January 15, 2016 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and HALO. HALO's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of HALO's PM/WRA grants.

Sincerely,

Jocelyn Hill

Jocelyn Hill, CPA
Partner

**WILLIAMS, ADLEY & COMPANY-DC, LLP**
***Certified Public Accountants / Management Consultants***
**1030 15th Street, N.W., Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161**
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# Summary

## Background

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

The State Department Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) awarded $14,763,900 to The Hazardous Areas Life-Support Trust Organization (HALO) for five grants under its Weapons and Ammunition Disposal Program.

HALO is headquartered in Scotland, United Kingdom (UK) and is the oldest and largest humanitarian landmine clearance organization in the world. For more than two decades HALO has worked on mine clearance through technical innovation efforts.

SIGAR contracted to audit the five grants and associated modifications awarded to HALO as listed below. The audit scope for the five grants was April 1, 2011 through March 31, 2015. The principal objective of these grants was to provide a safe environment for Afghan inhabitants and returnees in urban and rural areas, thus providing the facility for the return of internally displaced people to their hometowns, normalization of local socio-economic conditions to pave the way for repatriation, resettlement and the rehabilitation of the country.

The chart below shows the purpose of the modifications, the change in grant totals and the period of time the modifications to the grant agreements covered.

**Table 1: HALO Grants with Modifications**

| Grant Number S-PMWRA- | Final Grant Value (USD) | Grant value | Starting date | End date | Purpose |
|---|---|---|---|---|---|
| 11-GR-0016 | 1,056,000 | 1,056,000 | 4/1/2011 | 3/31/2012 | **Weapons and Ammunition Disposal** Seek out and destroy 400 metric tons of ammunition; detection and removal of ammunition; support Afghan authorities in ammunition storage; enhance security. |

| Grant Number S-PMWRA- | Final Grant Value (USD) | Grant value | Starting date | End date | Purpose |
|---|---|---|---|---|---|
| **12-GR-1007** | **6,500,000** | **2,500,000** | **4/1/2012** | **9/30/2013** | **Humanitarian Mine clearance in Afghanistan** Provide 22 manual demining teams, 4 manual units, 8 mechanical teams, 1 battle area clearance team, 1 unexploded ordnance/abandoned ordnance team and 1 survey team to return to productive use over 2,690,000 square meters of mine contaminated ground and over 5,690,000 ERW contaminated ground, protect victims of conflict, restore access to land, and provide safe access to land for 7,347 families. |
| Mod 1 | | 4,000,000 | 4/1/2012 | 3/31/2013 | Obligate Remaining Funds |
| Mod 2 | | -541,666 | 4/1/2012 | 3/31/2013 | Temporary de-obligation ($541,666). Funds will be reimbursed when FY13 funding becomes available. |
| Mod 3 | | 541,666 | 4/1/2012 | 3/31/2013 | Full value of grant funds obligated |
| Mod 4 | | 0 | 4/1/2012 | 9/30/2013 | No Cost Extension and Budget Realignment. |
| **12-GR-1009** | **1,107,900** | **450,000** | **4/1/2012** | **3/31/2013** | **Weapons and Ammunition Disposal Program – Afghanistan** Provide 3 seven-man excavation teams, 3 five-man survey teams, 1 twelve-man Ministry of Defense support team; destroy 300 metric tons of ammunition, reinforce stability and support Afghan National Police. |
| Mod 1 | | 657,900 | 4/1/2012 | 3/31/2013 | Full value of grant funds obligated |
| Mod 2 | | -92,325 | 4/1/2012 | 3/31/2013 | Temporary de-obligation ($92,325). Funds will be reimbursed when FY13 funding becomes available |
| Mod 3 | | 92,325 | 4/1/2012 | 3/31/2013 | Full value of grant funds obligated |
| **13-GR-1006** | **3,750,000** | **250,000** | **4/1/2013** | **9/30/2014** | **Humanitarian Mine clearance in Afghanistan** Return to productive use over 2,000,000 square meters of mine contaminated ground and over 410,000 square meters of ERW contaminated ground; reduce human and livestock casualties; return agricultural land to productive use; safe access to natural resources; improve mine/ERW awareness in impacted communities. |
| Mod 1 | | 2,250,000 | 4/1/2013 | 3/31/2014 | Full value of grant funds obligated |
| Mod 2 | | 1,250,000 | 4/1/2013 | 9/30/2014 | Increase grant and increase time period |

| Grant Number S-PMWRA- | Final Grant Value (USD) | Grant value | Starting date | End date | Purpose |
|---|---|---|---|---|---|
| 13-GR-1004 | 2,350,000 | 110,000 | 4/1/2013 | 3/31/2015 | **Weapons and Ammunition Disposal in Afghanistan** Detection and removal of ammunition, support good order in Afghan ammunition storage facilities, enhance security, and destroy 400 metric tons of ammunition. |
| Mod 1 | | 40,000 | 4/1/2013 | 3/31/2014 | Add incremental funds of $40k |
| Mod 2 | | 950,000 | 4/1/2013 | 3/31/2014 | Release obligated balance of funds |
| Mod 3 | | 1,250,000 | 4/1/2014 | 3/31/2015 | Increase grant and time period |
| *TOTAL* | *14,763,900* | | | | |

# Work Performed

Williams Adley and Company-DC, LLP (Williams Adley) was contracted by SIGAR to conduct a financial audit of costs incurred by HALO under the above-mentioned PM/WRA grants and associated modifications, and as presented in the Special Purpose Financial Statement for the period from April 1, 2011 through March 31, 2015.

# Objectives

The objectives of the audit were to:

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

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

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

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

## Scope

In general, our scope of work includes the PM/WRA grants and related modifications executed between April 1, 2011 and March 31, 2015, as outlined in Table 1 above.

For the above grants, the engagement services included:

1. Performing a financial audit of incurred costs by HALO under the 5 grants listed above issued by PM/WRA for de-mining, and weapons and ammunition disposal projects in Afghanistan. This audit included test work performed on-site at HALO's office in Kabul, Afghanistan and HALO headquarters in Scotland, United Kingdom.

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

   Major areas for review included:

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

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

4. Reviewing transactions for the period from April 1, 2011 to March 31, 2015 and subsequent events and information related to the findings and questioned costs for the audit period.

## Methodology

To meet the audit objectives, Williams Adley identified the applicable criteria needed to test the Statement and supporting financial records and documentation through a review of the grants and modifications thereto. The criteria included OMB circulars A-122 and A-133; related regulations under Title 2 of the Code of Federal Regulations (CFR), Parts

215 and 230, and 22 CFR, Part 145. In addition, Williams Adley reviewed HALO's organizational charts and reporting hierarchy, policies and procedures, and the status of prior audit report findings to gain an understanding of the normal procedures and system of internal controls established by HALO to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations.

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

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

## Summary of Results

Williams Adley issued a modified opinion on HALO's Special Purpose Financial Statement. Williams Adley also reported on HALO's internal controls and compliance regarding the Statement. Upon completion of our audit procedures, Williams Adley identified 9 findings. One exception was determined to be a material weakness in internal control; two other exceptions were considered significant weaknesses in internal control; and two exceptions were deficiencies in internal control. With respect to compliance, one exception was deemed a material non-compliance issue and the remaining eight exceptions were considered immaterial non-compliance issues. Where internal control and compliance findings pertained to the same matter, we consolidated them into a single finding. Costs totaling $224,775 were questioned. The questioned costs are summarized in the following table:

**Table 2: Summary of Questioned Costs**

| Finding Number | Issue | Unsupported Questioned Cost | Ineligible Questioned Cost | Indirect Questioned Cost | Total Questioned Cost |
|---|---|---|---|---|---|
| 2015-01 | Unsupported & Ineligible Payroll Cost | $132,204 | | $8,346 | $140,550 |
| 2015-02 | Ineligible Equipment Cost | | $38,781 | $2,509 | $41,290 |
| 2015-03 | Unsupported Supply Cost | $19,135 | | $1,219 | $20,354 |
| 2015-04 | Ineligible Supply Cost | | $7,026 | $447 | $7,473 |
| 2015-05 | Ineligible Budget Line-item Overage | | $15,108 | | $15,108 |
| | **TOTALS** | **$151,339** | **$60,915** | **$12,521** | **$224,775** |

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

### *Summary of Prior Audit Reports*

We obtained three years of prior audits, assessments, or reviews of HALO that we considered applicable to the scope of our work and read to ensure that there were no significant deficiencies or material weaknesses noted. We reviewed OMB Circular A-133 audit reports for the fiscal years ended March 31, 2013, 2014 and 2015.

We obtained an understanding of HALO's prior year findings and their current status. The prior audits did cite significant deficiencies over internal controls, which required test work to ensure proper corrective action was taken. Per our inquiries and review, we determined that HALO has taken adequate corrective actions to address two of the five prior internal control findings. One finding relating to the lack of payroll internal controls was included in HALO's prior three years of A-133 audit reports was repeated in this audit report. The past three years of A-133 audit reports also included a finding concerning HALO contract and procurement files missing verification that contractors and vendors were not excluded parties, which is repeated in this audit report. A finding relating to the lack of justification for sole source procurements that was included in the 2013 and 2014

A-133 audit reports is repeated in this audit report. Please see Attachment B for additional details on the status of prior audit findings.

### *Summary of Management Comments on Audit Report*

In response to the draft audit report, HALO management did not agree with all of the findings and stated that they dispute most of the questioned costs. For finding 2015-01 HALO disputes that it does not have attendance records and points out that its current payroll records system does meet requirements. HALO asserts that for finding 2015-02 the Kabul audit team (RBCO) was provided with a full explanation about HALO's stock system for delivering the vehicle in question. For finding 2015-04 HALO's position is that the audit team did not understand the process of net agreements with suppliers. HALO responded that for finding 2015-05, it does have financial management reports that are distributed to the Afghanistan team on a monthly basis. In response to finding 2015-06 HALO commented that since 2013 it has carried out an annual review of all capital equipment registers and inventory records in line with donor requirements. HALO stated that finding 2015-07 occurred due to a PMS system error and considers it immaterial. In response to finding 2015-08, HALO states that its procurement procedures (both in narrative and flow diagram format) clearly demonstrate that the Debarment and Suspension requirement is an integral part of its procedures. HALO views finding 2015-09 as a repeat of finding 2015-04. Please see Attachment C for HALO's detailed response to each finding. Our rebuttal to management comments are in Attachment D.

### Attachments

The auditor's reports are supplemented by four attachments:

Attachment A contains the Consolidating Special Purpose Statement.
Attachment B contains the prior audit reports' recommendations and current status.
Attachment C contains HALO's official management response to the draft report.
Attachment D contains the auditor's response to management comments.

WILLIAMS ADLEY

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

Leadership Team
Hazardous Areas Life-Support Trust Organization
Washington, DC and Scotland, UK

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

### *Report on the Consolidated Special Purpose Financial Statement*

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Hazardous Areas Life-Support Trust Organization (HALO) for grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 for the period of April 1, 2011 to March 31, 2015; and the related notes to the Statement.

### *Management's Responsibility for the Consolidated Special Purpose Financial Statement*

The accompanying Statement was prepared to present the revenues earned and costs incurred of HALO pursuant to grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 as described in Note 2a of the Statement, and is not intended to be a complete presentation of HALO's assets, liabilities, revenues and expenses.

HALO's management is responsible for the preparation and fair presentation of the Statement in accordance with the cash basis of accounting as described in Note 2b. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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

The accompanying Statement was prepared to present the revenues earned and costs incurred of HALO pursuant to grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 as described in Note 2 of the Statement, and is not intended to be a complete presentation of HALO's assets, liabilities, revenues and expenses.

### *Basis for Modified Opinion*

The results of our tests disclosed the following questioned costs and material non-compliance as detailed in the special purpose financial statement: (1) $140,550 in costs that are questioned because cost reasonableness could not be determined due to material non-compliance with, and material internal control deficiency related to labor cost allocation requirements; (2) a material weakness in the reliability of the payroll system to determine cost reasonableness based on our projection of results from the statistically valid sample we tested, for which we estimate that $5,197,626 of the total payroll costs may have been charged to the grants on the basis of an unapproved allocation methodology; (3) $20,354 in costs that are not supported with adequate documentation; and (4) $63,871 in costs that are questioned as ineligible.

### *Opinion*

In our opinion, except for the effects of the matters described in the *Basis for Modified Opinion* paragraph, the Statement referred to above presents fairly, in all material respects, program revenues and costs incurred and reimbursed under grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 for the period of April 1, 2011 to March 31, 2015 in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2 of the Statement.

### *Report on Other Legal and Regulatory Requirements*

In accordance with *Government Auditing Standards,* we have also issued reports dated November 16, 2015 on our consideration of HALO's internal controls over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

### *Restriction on Use*

This report is intended for the information of HALO, the United States Department of State and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Williams, Adley & Company-DC, LLP
Washington, D.C.
November 16, 2015

### Hazardous Areas Life-Support Trust Organization (HALO)

# Consolidated Special Purpose Financial Statement

### For the Period of April 1, 2011 to March 31, 2015

| Revenues | Budget | Actual | Ineligible | Unsupported | Note |
|---|---|---|---|---|---|
| S-PMWRA-11-GR-0016 | $1,056,000 | $1,056,000 | | | 2,4 |
| S-PMWRA-12-GR-1007 | $6,500,000 | $6,500,000 | | | 2,4 |
| S-PMWRA-12-GR-1009 | $1,107,900 | $1,107,900 | | | 2,4 |
| S-PMWRA-13-GR-1006 | $3,750,000 | $3,750,000 | | | 2,4 |
| S-PMWRA-13-GR-1004 | $2,350,000 | $2,338,721 | | | 2,4 |
| **Total Revenue** | **$14,763,900** | **$14,752,621** | | | |
| | | | | | |
| **Costs** | | | | | |
| Personnel | $8,153,838 | $8,159,538 | | $132,204 | 2,5,A |
| Fringe | $6,000 | $6,569 | | | 2,5 |
| Travel | $113,891 | $128,367 | | | 2,5 |
| Equipment | $480,261 | $506,041 | $38,781 | | 2,3,5,B |
| Supplies | $5,163,193 | $5,113,566 | $7,026 | $19,135 | 2,3,5,B |
| Total Direct Charges | **$13,917,183** | **$13,914,081** | | | |
| Indirect Costs (NICRA) | $846,717 | $838,540 | $2,956 | $9,565 | 2,5,A,B |
| TOTAL Cost | **$14,763,900** | **$14,752,621** | $15,108 | | C |
| *Outstanding Balance (deficit)* | | **$0** | **$63,871** | **$160,904** | |

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

## Notes to the Special Purpose Financial Statement[1]

For the Period of April 1, 2011 to March 31, 2015

### Note 1. Status and Operation

HALO is a not-for-profit corporation organized for the purpose of removal of the debris of war in various areas of the world, incorporated in the State of Maryland. HALO is supported primarily from grants by the United States Department of State and other agencies. HALO also receives support from foundations, individuals, and other organized charities.

### Note 2. Summary of Significant Accounting Policies

*a. Basis of Presentation*

The information in this Statement is presented in accordance with requirements specified by Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned agreement.

*b. Basis of Accounting*

The Statement reflects the revenues received and expenses incurred under the grant agreements issued by PM/WRA. The Statement is not presented in accordance with accounting principles generally accepted in the United States of America (GAAP). It has been prepared on the cash basis of accounting. Under the cash basis of accounting revenues are recognized when received.

*c. Currency*

The Special Purpose Financial Statement is presented in United States Dollars. For purposes of preparing the Statement, expenditures are recorded in US dollars (USD) or UK pounds sterling (GBP). HALO translates this expenditure to USD based upon monthly exchange rates published by the European Commission, in line with recognized accounting practice. Afghanis (AFS) are expended at the rate the bank formally exchanges the USD to AFS.

The rates used by HALO for translation of expenditure to the GBP are;

| | Apr-11 | May-11 | Jun-11 | Jul-11 | Aug-11 | Sep-11 |
|---|---|---|---|---|---|---|
| US$/GBP | 1.603 | 1.664 | 1.646 | 1.603 | 1.632 | 1.630 |
| | Oct-11 | Nov-11 | Dec-11 | Jan-12 | Feb-12 | Mar-12 |
| US$/GBP | 1.564 | 1.562 | 1.562 | 1.542 | 1.569 | 1.587 |

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

| | Apr-12 | May-12 | Jun-12 | Jul-12 | Aug-12 | Sep-12 |
|---|---|---|---|---|---|---|
| US$/GBP | 1.588 | 1.623 | 1.559 | 1.554 | 1.570 | 1.586 |
| | Oct-12 | Nov-12 | Dec-12 | Jan-13 | Feb-13 | Mar-13 |
| US$/GBP | 1.622 | 1.608 | 1.604 | 1.614 | 1.578 | 1.516 |
| | Apr-13 | May-13 | Jun-13 | Jul-13 | Aug-13 | Sep-13 |
| US$/GBP | 1.514 | 1.554 | 1.513 | 1.528 | 1.532 | 1.552 |

| | Oct-13 | Nov-13 | Dec-13 | Jan-14 | Feb-14 | Mar-14 |
|---|---|---|---|---|---|---|
| US$/GBP | 1.612 | 1.607 | 1.633 | 1.648 | 1.648 | 1.665 |
| | Apr-14 | May-14 | Jun-14 | Jul-14 | Aug-14 | Sep-14 |
| US$/GBP | 1.663 | 1.682 | 1.682 | 1.703 | 1.693 | 1.659 |
| | Oct-14 | Nov-14 | Dec-14 | Jan-15 | Feb-15 | Mar-15 |
| US$/GBP | 1.623 | 1.600 | 1.576 | 1.554 | 1.513 | 1.550 |

The rate used by HALO for Afghanis to USD are those shown on the Payment Vouchers (PVs) and are the rates the bank gave HALO for the sale of USD.

**Significant Accounting Policies**

**Note 3. Variances**

S-PMWRA-11-GR-0016 and S-PMWRA-12-GR-1007

There are no material variances reported by HALO management on the Funds Accountability Statement provided to the auditors, from which the consolidating Special Purpose Financial Statement per "Attachment A" is derived.

S-PMWRA-12-GR-1009, S-PMWRA-13-GR-1004, and S-PMWRA-13-GR-1006

None of the over or under-expenditures exceeds those allowable by PM/WRA according to HALO Management. During the years 2012 to 2015, HALO reviewed the budget provision for food and water, for which the allowable values decreased each day. The underspent funding in food and water offset increased national employee costs.

S-PMWRA-12-GR-1009

Supplies & Equipment: As detailed and taken from the Quarter 1 report. This budget provides for the purchase of a single mine-excavator, however the volume of work for the conventional excavators is such that HALO believes that an additional JCB unit would prove to be a far better purchase. In order to afford an additional machine HALO will need to significantly trim its current running cost lines, but believes that by doing so the purchase of the larger machine is possible.

## Note 4. Revenues

Revenues on the Statement represent the amount of funds that have been reimbursed to HALO from PM/WRA for allowable, eligible costs incurred under the contract during the period of performance.

## Note 5. Cost Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, PM/WRA approved budget adopted as a component of the proposal and any amendments made to it.

## Notes to the Questioned Amounts Presented on the Special Purpose Financial Statement[2]

Note A: Questioned Costs – Personnel

Finding 2015-01 questions $132,204 of incurred payroll costs and $8,346 in associated indirect costs between April 1, 2011 and March 31, 2015 as a reasonable basis for the labor allocation billed to the project could not be determined for personnel who worked on multiple projects with multiple donors.

Note B: Questioned Costs – Equipment and Supplies

Finding 2015-02, 2015-03, and 2015-04 questions $38,781 in equipment cost, as a reasonable basis could not be determined for the eligibility of the charged amount, and $19,135 in supplies for transactions that were missing supporting documents. Further, $7,026 in supplies costs were considered ineligible as tax was not withheld from the supplier but paid to both the supplier and the government. We calculated $4,175 of indirect costs associated with these unsupported or ineligible costs. In total, we questioned $69,117 in equipment and supplies transaction costs.

Note C: Questioned Costs – Total Cost Budget Line-item Overage

Finding 2015-05 questions $15,108 in total budget line-item overages that were not approved by the United States Department of State, as required. As a result, we questioned the budget overage as ineligible costs.

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

WILLIAMS ADLEY

## Independent Auditor's Report on Internal Control

Leadership Team
Hazardous Areas Life-Support Trust Organization
Washington, DC and Scotland, UK

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

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Hazardous Areas Life-Support Trust Organization (HALO) grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 for the period of April 1, 2011 to March 31, 2015; and have issued our report thereon dated November 16, 2015.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider Finding 2015-01 to be a material weakness in internal control. We consider Findings 2015-02 and 2015-03 to be significant deficiencies and Findings 2015-04 and 2015-05 insignificant deficiencies in internal control.

This report is intended solely for the information of HALO, United States Department of State and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Williams, Adley & Company-DC, LLP
Washington, D.C.
November 16, 2015

WILLIAMS ADLEY

## Independent Auditor's Report on Compliance

Leadership Team
Hazardous Areas Life-Support Trust Organization
Washington, DC and Scotland, UK

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

We have audited the Consolidated Special Purpose Financial Statement (the "Statement") of the Hazardous Areas Life-Support Trust Organization (HALO) grant numbers S-PMWRA-11-GR-0016; S-PMWRA-12-GR-1007; S-PMWRA-12-GR-1009; S-PMWRA-13-GR-1004; and S-PMWRA-13-GR-1006 for the period of April 1, 2011 to March 31, 2015; and have issued our report thereon dated November 16, 2015.

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

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

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our compliance tests disclosed one material instance of noncompliance, the effects of which are shown as questioned costs in the accompanying Schedule of Findings and Questioned Amounts under Finding 2015-01. We also noted immaterial instances of noncompliance, which are reported in Findings 2015-02, 2015-03, 2015-04, 2015-05, 2015-06, 2015-07, 2015-08 and 2015-09. We consider Findings 2015-01 and 2015-02 as potential indicators of fraud, waste or abuse during the period audited.

We considered the material instance of noncompliance in forming our opinion on whether HALO's Statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2 to the Statement, and this report does affect our report on the Statement dated November 16, 2015.

This report is intended solely for the information of HALO, the United States Department of State and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Williams, Adley & Company-DC, LLP
Washington, D.C.
November 16, 2015

# Schedule of Findings and Questioned Amounts

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

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

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

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

**Condition:** We tested $207,547 of $8,159,538 in incurred payroll costs between April 1, 2011 and March 31, 2015. For employee's working multiple projects HALO did not maintain timesheets or other meaningful support for the way in which these payroll costs were allocated to its State Department grants subject to this audit. HALO commented that a time-study was conducted, however no time-study with approval from the State Department for the payroll system allocation of labor costs was provided to the auditors. HALO is supported by multiple donors. Nevertheless, HALO could not provide a reasonable basis for its methodology for allocation of labor costs. A total of $132,204 of the $207,547, or 63.7% of the labor costs tested, were based on an unsupported allocation methodology when staff had been assigned to more than one project.

**Cause:** HALO did not develop and implement sufficient internal controls to support its labor cost allocation methodology because administrative/support staff are responsible for multiple projects and HALO stated it was not practical to record the number of hours of work spent on a specific project by individual. HALO also does not issue timesheets for administrative/support staff as they are required by the national contract to work 47 hours per week. Instead, HALO allocates a set number of months per individual staff to a project during its lifetime as HALO's method for assigning labor costs that span multiple grants. HALO assumed the allocation method was acceptable as it has been used on a consistent basis and did not believe prior approval from the State Department was required for the specific allocation method used for those employees who worked on and were charged to multiple projects.

**Effect:** The absence of adequate controls relevant to after the fact documentation of the level of effort applied to the grants, and non-compliance with documentation requirements, resulted in payroll costs of $132,204 costs and associated indirect costs of $8,346 being questioned as unsupported costs. Further, without proper support to justify incurred costs, the risk of the U.S. Government being overcharged for activities under the grants and opportunities for waste, fraud, and abuse of government funds is increased. We estimate that cumulatively $5,197,626, or 63.7% of the total payroll costs may be have been charged to the grants using an unapproved allocation methodology based our test results, which are based on a statistical sampling with a 95% confidence level and 5% tolerable error rate.

**Recommendation:** We recommend that HALO:

a) Implement controls by updating procedures to: 1) record after the fact level of effort reporting and/or timesheets for its employees charged to and responsible for supporting multiple projects; or 2) obtain the required written approval of a reasonable allocation methodology by HALO's cognizant agency in lieu thereof.
b) Provide the State Department with adequate support for the $140,550 in questioned payroll costs in accordance with an acceptable cost allocation methodology or actual level of effort; or
c) Reimburse the State Department for that portion of the $140,550 in questioned costs and other allocated payroll costs under the grant for which adequate support could not be provided.

## Finding 2015-02: Ineligible Equipment Cost (Significant Deficiency and Non-Compliance)

**Criteria:** OMB Circular No. A-122, Cost Principles for Non-Profit Organizations, defines reasonableness and states that, "A cost is reasonable if, in its nature and 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. Reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies". It also defines cost as being allocable to a particular cost objective such as a grant, contract, project, service or other activity in accordance with the relative benefits received.

Under Attachment B of OMB Circular A-122, section 15.b (1), capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except where approved in advance by the awarding agency. Section 15.b(4) further explains that when approved as a direct charge, capital expenditures will be charged in the period in which the expenditure is incurred, or as otherwise determined appropriate by and negotiated with the awarding agency.

**Condition**: We tested $2,120,785 of $5,754,543 in non-payroll direct incurred costs between April 1, 2011 and March 31, 2015. During testing of supplies and equipment costs, the following exception for the purchase of equipment was noted:

1. Land rover ($38,781.00)

The cost is ineligible because the year of purchase was 2008, three years before the first grant was issued. The full purchase price of the vehicle was billed to the grant in 2011. HALO management stated that the vehicle was not in service before 2011, therefore, no depreciation in value occurred. However, the cost principles require capital expenditures to be charged in the period the cost was incurred, which would make the property an ineligible expenditure because it significantly preceded the date of the award. Further, the vehicle was used for only 26 days under the grant. Charging the grant the full cost of the vehicle three years after purchase and with very limited use on the grant does not meet the eligibility or cost reasonableness requirements in this instance.

**Summary of Questioned Costs - Equipment**

| Grant(s) | Description | ineligible Questioned Costs | Indirect Questioned Cost | Total Questioned Costs |
|---|---|---|---|---|
| S-PMWRA-11-GR-0016 | Land Rover | $38,781.00 | $2,509 | $41,290 |
| Totals | | $38,781.00 | $2,509 | $41.290 |

**Cause:** HALO asserted that it purchased Land Rovers in advance and in bulk to obtain volume discounts on this equipment. However, HALO did not consider that the purchase of a vehicle years in advance of the actual award would make the purchase ineligible for reimbursement under the grant without prior approval. HALO also did not seek prior approval of the purchase because the State Department had not yet issued the grant to which HALO eventually charged the purchase.

**Effect:** In the absence of sufficient and adequate documentation to support cost reasonableness or eligibility for the equipment, we could not determine that the cost of the vehicle charged to the State Department was eligible. As a result, we questioned the allowability of $41,290 in incurred costs.

**Recommendation:** We recommend that HALO provide the State Department with records that clearly support the allowability of the $41,290 in questioned costs presented above or reimburse the State Department for those amounts for which appropriate support is not provided.

### Finding 2015-03: Unsupported Supply Costs (Significant Deficiency and Non-Compliance)

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

**Condition:**
*Unsupported Questioned Costs - Supplies*

1. Accommodation ($301)
   There were no quotations obtained for the above costs. According to the Purchase Request Approval procedures, a purchase request form must be completed for non-vehicle maintenance purchases exceeding $250.00.

2. Food & Water ($8,088)
   HALO did not obtain at least 3 quotations although there were a number of suppliers registered with AISA.

3. Fuel & Lubricants ($8,780)
   Payment of goods with cash could not be confirmed.

4. Vehicle Maintenance ($1,573)
   Sole source justification provided states that there was only one dealer available for procurement of vehicle maintenance components like oil, filter, tires etc. This amount includes approximately $567 for which competitive quotations were not obtained and $1,006 in payments to the police department that could not be confirmed. As the justification provided no further support, the rationale for the sole source procurements could not be determined. The auditors were able to verify that the procurement of oversized tires was justified on a non-competitive basis and removed these transactions from the questioned cost.

5. Vehicle Registration ($393)
   Payment to the police department cannot be confirmed. Supporting documentation not provided.

**Summary of Questioned Unsupported Costs - Supplies**

| Grant(s) | Description | Unsupported Questioned Costs | Indirect Questioned Cost | Total Questioned Costs |
|---|---|---|---|---|
| S-PMWRA-12-GR-1007, S-PMWRA-13-GR-1004, S-PMWRA-13-GR-1006, S-PMWRA-11-GR-0016. | Accommodation<br>Food & Water<br>Fuel & Lubricants<br>Office Equipment<br>Vehicle Maintenance<br>Vehicle Registration | $19,135 | $1,219 | $20,354 |
| Totals | | $19,135 | $1,219 | $20,354 |

**Cause:** HALO did not develop and implement sufficient internal controls to ensure that appropriate documentation to support costs incurred was maintained and readily available for review for all grant costs. Further, HALO did not develop and maintain sufficiently robust motor pool policies and procedures such that all vehicle related costs could be properly tracked and assigned to vehicle-specific maintenance and mileage records for improved internal controls over vehicle usage and maintenance costs.

**Effect:** In the absence of sufficient and adequate documentation to support cost reasonableness, we could not determine that all costs charged to the State Department were allowable. As a result, we questioned $20,354 in incurred costs for supplies.

**Recommendation:** We recommend that HALO provide the State Department with records that clearly support the allowability of the $20,354 in questioned costs presented above or reimburse the State Department for those amounts for which appropriate support is not provided. We also recommend that HALO develop and implement a motor pool policy and procedures manual that improves internal controls over vehicle usage and maintenance records.

### Finding 2015-04: Ineligible Costs Charged to Supplies (Internal Control Deficiency and Non-Compliance)

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

As per Afghanistan tax law, Article 59, Payments of rent for buildings and houses which are rented to legal or natural persons and are used for business purposes or offices are subject to withholding tax as follows: (a) Where the monthly rent is from Afs 10,000 to Afs.100,000 -ten (10) percent. (b) Where the monthly rent is more than Afs.100,000 – fifteen (15) percent.

OMB Circular A-122, Cost Principles for Non-Profit Organizations defines cost as being allocable to a particular cost objective such as a grant, contract, project, service or other activity in accordance with the relative benefits received.

**Condition:**

*Ineligible Questioned Costs - Supplies*

1. Accommodation ($2,691)
   HALO is responsible to withhold tax from payment of rent and to submit the withheld tax to the government within a specified period of time. HALO paid rent including the tax to the landlord and also charged the withholding tax to the grant.

2. Food & Water ($2,668)
   Withholding tax of 2% was not deducted from the supplier's invoiced amount, instead, the invoice was paid in full, including the tax. The 2% withholding tax was paid and charged to the grant, in addition to the supplier's invoiced amount.

3. Fuel & Lubricants ($1,136)
   Withholding tax of 2% was not deducted from the supplier's invoiced amount, instead, the invoice was paid in full, including the tax. The 2% withholding tax was paid and charged to the grant in addition to the supplier's invoiced amount.

4. Office Equipment ($531)
   This charge is for a replacement of a lost/stolen laptop. The laptop was not used for the project and therefore its replacement cannot be charged against this grant

Summary of Ineligible Costs - Supplies

| Grant(s) | Description | Ineligible Questioned Costs | Indirect Questioned Cost | Total Questioned Costs |
|---|---|---|---|---|
| S-PMWRA-12-GR-1007, S-PMWRA-13-GR-1004, S-PMWRA-13-GR-1006, S-PMWRA-11-GR-0016. | Accommodation<br>Food & Water<br>Fuel & Lubricants<br>Office Equipment<br>Vehicle Maintenance<br>Vehicle Registration | $7,026 | $447 | $7,473 |
| Totals | | $7,026 | $447 | $7,473 |

**Cause:** HALO did not properly support costs and improperly charged grants because it did not have sufficient controls in place to ensure compliance with Afghanistan's laws for the withholding of taxes from purchases made using grant funds. The policies and procedures HALO has in place contained insufficient guidance and supervisory review of Afghanistan's tax laws and the payment of taxes.

**Effect:** In the absence of sufficient and adequate documentation to support cost eligibility for all disbursements tested, we could not determine that all costs charged to the State Department were allowable. As a result, we questioned $7,473 in incurred costs.

**Recommendation:** We recommend that HALO provide the State Department with records that clearly support the allowability of the $7,473 in questioned costs presented above or reimburse the State Department for those amounts for which appropriate support is not provided. Further, we recommend HALO implement sufficient policies and procedures with supervisory review of tax payments in improve controls in this area, and provide training on the revised procedures to ensure compliance with Afghanistan's tax laws.

### Finding 2015-05: Budget Line-item Overage (Internal Control Deficiency and Non-Compliance)

**Criteria:** Under 22 CFR, Subsection 145.25, Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with this section. The Department may, at its option, restrict the transfer of funds among direct cost categories or programs, functions and activities for awards in which the Federal share of the project exceeds $100,000 and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total budget as last approved by the Grants Officer. Grants Officers shall not permit a transfer that would cause any Federal appropriation or part thereof to be used for purposes other than those consistent with the original intent of the appropriation.

Further guidance received by the Grants Officer by email confirmed the application of a 10% absolute rule as the following terms and conditions require Grants Officer permission for the transfer of funds among direct cost categories where such cumulative transfers exceed 10% of total grant amount (this is over the total lifetime of the grant).

**Condition:** For grant S-PMWRA-12-GR-1009 there was a variance between budget and actual amounts on each line item. Although HALO adhered to the total approved budget, this condition caused the grantee to exceed the 10% variance threshold allowed without approval from the State Department. The grant was for $1,107,900, which allowed total adjustments of $110,790 without prior approval. The adjustments to actual expenditures totaled $125,897.68, which exceeded the allowable variance without prior State Department approval by approximately $15,108.

| Budget Category | Total Grant Budget including Modifications and SF 424a | Total Funded (Based on PMS drawdown) | Total Costs (agrees to HALO's GL) | Budget to Actual Variance (in absolute values) |
|---|---|---|---|---|
| | | | | |
| **Personnel** | $520,303.00 | $520,303.00 | $563,409.17 | $43,106.17 |
| **Travel** | $14,300.00 | $14,300.00 | $17,302.17 | $3,002.17 |
| **Equipment** | $25,000.00 | $25,000.00 | $41,840.50 | $16,840.50 |
| **Supplies** | $483,619.00 | $483,619.00 | $420,729.89 | $62,889.11 |
| **Total direct charges** | **$1,043,222.00** | **$1,043,222.00** | **$1,043,281.73** | **$125,837.95** |
| **Indirect Charges (NICRA)** | $64,678.00 | $64,678.00 | $64,618.27 | $ 59.73 |
| **Total** | **$1,107,900.00** | **$1,107,900.00** | **$1,107,900.00** | **$125,897.68** |
| | | | **Allowable adjustments** | **$110,790.00** |
| | | | **Difference** | **$15,107.68** |

**Cause:** The budget to actual variance occurred because HALO did not have adequate budgetary controls in place to ensure the budgetary adjustments did not exceed the 10% allowance or to ensure proper approval was obtained prior to exceeding this threshold for budgetary line item adjustments. Adequate budgetary controls were not in place because HALO did not have procedures to track the cumulative effect of cost adjustments that would trigger State Department approval per regulatory requirements and management was not fully aware of these requirements.

**Effect:** The re-alignment of approximately $15,108 in grant funds over and above allowable adjustments may result in funds being used in a manner contrary to grant objectives. Further, HALO's failure to adhere to budgetary approval regulations diminishes the effectiveness of the control mechanism and it undermines the State Department's control over the use of funds.

**Recommendation:** We recommend that HALO implement controls such as budgetary procedures that consider all the grant guidelines and requirements for cost adjustments, and provide training to those responsible for adhering to the budget related regulatory requirements to ensure compliance therewith. HALO also should provide evidence of State Department approval of the budget line item adjustments or reimburse the State Department for that portion of the approximately $15,108 in budget line item adjustments that exceeded the allowable cumulative limit for which State Department approvals have not been obtained.

## Finding 2015-06: Inventory Controls (Non-Compliance)

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

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

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

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

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

Title 22 CFR, Subsection 145.31, states that "recipients shall, at a minimum, provide the equivalent insurance coverage for real property and equipment acquired with Federal funds as provided to property owned by the recipient".

**Condition:** HALO did not consistently capture the required information within its registers, such as serial number of inventory and traceable identifiable number. On items such as visors and aprons, HALO did not physically mark the visors with a traceable identifiable number. Further, HALO did not provide evidence of general ledger reconciliation of posted equipment costs to physical inventory records.

The auditors requested HALO's support for equipment insurance; HALO indicated they do not insure the equipment. Based upon our testing of both inventory and disbursements, we noted 10 items of equipment purchased with grant funds that had not been insured.

| Item No. | Inventory Item | Price (USD) |
|---|---|---|
| 7255* | Vehicle - 4x4 Land Rover | 53,807.00 |
| 7672 | JCB BACK HOE | 49,205.00 |
| 7983 | JCB Front End Loader | 44,000.00 |
| 7984 | JCB Back Hoe | 44,000.00 |
| 8152 | JCB | 36,000.00 |
| 7372 | Vehicle - 4x4 Land Rover | 31,336.53 |
| 7982 | JCB Excavator | 30,000.00 |
| 8062 | Generator -110KVA | 5,500.00 |
| 8063 | Generator -110KVA | 5,500.00 |
| 3640 | Heavy Vehicle | 117,984.38 |

*This vehicle is the same vehicle mentioned in finding 2015-02. The price listed above includes the cost of additional features to bring the vehicle to its current use.

**Cause:** Required information on inventory was not collected because HALO did not include proper controls within their policy and procedures related to inventory management, which detailed inventory control requirements. Further, HALO did not follow through on prior recommendations to improve its inventory management process as management did not institute and enforce timely corrective actions. Additionally, because the personnel responsible for maintaining inventory were not aware of the requirements for maintaining asset registers, the register did not capture the required information for assets purchased with grant funds.

**Effect:** HALO does not have effective control over the inventory process. Therefore, there is less assurance that inventory records are accurate, complete and current, and there is increased risk that equipment could be lost, damaged or stolen, or otherwise made unavailable for project use. The project may incur additional and unnecessary costs for lost or stolen items if proper insurance is not in place.

**Recommendation:** We recommend that HALO develop and implement a corrective action plan that includes a formal, written policy and procedures to address inventory management requirements including: record keeping, inventory counts, and reconciliations including supervisory review to ensure asset records fully account for purchased assets in accordance with regulatory requirements. It is further recommended HALO budget and insure equipment in accordance with regulatory requirements or provide evidence, on a cost-benefit basis, for not obtaining the required insurance.

### Finding 2015-07: Financial Reporting (Non-Compliance)

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

Directions per FFR form SF-425 state that cash disbursements are to be entered in field 10(b) as the cumulative amount of Federal fund disbursements (such as cash or checks) as of the reporting period end date. Disbursements are the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the award, and the amount of cash advances and payments made to sub recipients and contractors.

**Condition:** The auditors observed differences between the actual disbursements reported on the general ledgers we were provided, which was the sum of actual cash disbursements for direct charges for goods and services, the amount of indirect expenses charged to the grant and the amount of cash advances, and the amounts reported as disbursed on the FFR form SF-425 under field 10(b) for grant S-PMWRA-13-GR-1004. It is noted HALO did not draw down greater amounts than what was disbursed; therefore there is no monetary impact due to the errors in the amounts reported in field 10(b) on the FFR.

| Period End | Net project disbursements per SF-425 | Total Disbursement per GL | Difference amount over/(under) reported[3] |
|---|---|---|---|
| Grant 13-GR-1004 | | | |
| 6/30/2013 | $ 110,000.00 | $ 217,328.49 | $(107,328.49) |
| 9/30/2013 | $ 313,674.98 | $ 198,956.73 | $ 114,718.25 |
| 12/31/2013 | $ 280,733.05 | $ 287,973.16 | $ (7,240.11) |
| 3/31/2014 | $ 395,591.97 | $ 384,463.04 | $ 11,128.93 |
| 6/30/2014 | $ - | $ 227,750.66 | $(227,750.66) |

[3] Differences represented on the chart explain calculations performed by the auditors, the only amount that was not cleared due to timing differences was the total $11,278.58.

| Period End | Net project disbursements per SF-425 | Total Disbursement per GL | Difference amount over/(under) reported[3] |
|---|---|---|---|
| 9/30/2014 | $ 632,627.57 | $ 404,876.94 | $ 227,750.63 |
| 12/31/2014 | $ 328,851.43 | $ 327,892.66 | $ 958.77 |
| 3/31/2015 | $ 288,521.00 | $ 289,479.74 | $ (958.74) |
| **Total** | | | **$ 11,278.58** |

**Cause:** HALO did not accurately report disbursements on the grant financial report in question because HALO had underspent during the year what was budgeted for food and water provision. HALO attempted to submit a corrected report reflecting the unobligated amount of $11,278.58 at the quarter ended March 31, 2015, however the status in the financial reporting system was labeled as started but not completed. This status was not addressed, therefore, the corrected financial report was not received by the State Department.

**Effect:** Inadequate reporting of program expenses may result in overstated or understated financial reporting to the State Department. Additionally, inaccurate financial reporting diminishes the State Department's ability to properly monitor the grant funds.

**Recommendation:** We recommend that HALO develop controls to ensure that required financial reports are prepared and submitted accurately, completely and on time.

## Finding 2015-08: Debarment and suspension common rule (Non-Compliance)

**Criteria:** Under 2 CFR, Subsection 215.13, Federal awarding agencies and recipients shall comply with Federal agency regulations implementing E.O.s 12549 and 12689, "Debarment and Suspension." Under those regulations, certain parties that are debarred, suspended or otherwise excluded may not be participants or principals in Federal assistance awards and subawards, and in certain contracts under those awards and subawards.

Under 2 CFR, Subsection 220, Debarment and Suspension (E.O.s 12549 and 12689)—A contract award with an amount expected to equal or exceed $25,000 and certain other contract awards (see 2 CFR 180.220) shall not be made to parties listed on the government-wide Excluded Parties List System, in accordance with the OMB guidelines at 2 CFR part 180 that implement E.O.s 12549 (3 CFR, 1986 Comp., p. 189) and 12689 (3 CFR, 1989 Comp., p. 235), "Debarment and Suspension." The Excluded Parties List System contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than E.O. 12549.

**Condition:** HALO neither obtained certifications from nor verified the status for one contractor regarding debarment, suspension, ineligibility and voluntary exclusion from Federal awards. Although HALO has started to implement a procedure of checking on sam.gov for contractor status, the auditors still observed this one exception. The auditors verified through sam.gov that this contractor was not on the excluded parties list, therefore, no associated costs are questioned.

**Cause:** HALO did not have a system in place to ensure its policy to check all vendors on the excluded party listing system for suspension and debarment prior to procuring goods and services was followed. For example, although HALO maintains a Finance and Logistics Manual that includes procedures for verifying vendor eligibility through sam.gov, the HALO Afghanistan Finance Policy Manual did not contain any reference to vendor verification on sam.gov or the predecessor Excluded Parties List System. HALO Finance, which is responsible for ensuring that a sam.gov check is done on vendors prior to processing payment, did not ensure evidence was kept on file that such a check was done.

**Effect:** HALO could secure services from a party on the excluded party listing system that was suspended or debarred from participation in federal awards. This control deficiency could result in questioned costs if services are obtained from an excluded party using grant funds.

**Recommendation:** We recommend that HALO improve controls relating to its procurement policy for checking parties that are suspended or debarred from participation in Federal grants in all required instances by: 1) ensuring all policy and procedure manuals include appropriate guidance relating to vendor verification; and 2) conducting follow-up training with the individuals responsible for the vendor verification and payment process to ensure understanding and compliance with the stated procedures.

### Finding 2015-09: No Withholding Tax (Non-Compliance)

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

As per Afghanistan tax law, Article 59, Payments of rent for buildings and houses which are rented to legal or natural persons and are used for business purposes or offices are subject to withholding tax as follows: (a) Where the monthly rent is from AFS 10,000 to AFS.100,000 -ten (10) percent. (b) Where the monthly rent is more than AFS.100,000 – fifteen (15) percent.

**Condition:** During disbursement testing the auditors noted 24 exceptions where taxes had not been deducted from suppliers and on rent, but the invoices had notations wherein the suppliers and landlord agreed to pay the taxes owed. Although no questioned costs resulted from these transactions, the transactions violated Afghan tax laws.

**Cause:** Afghan tax laws were violated because HALO did not have proper controls in place to ensure taxes were paid in accordance with Afghan law.

**Effect:** HALO may be subject to fines and back payment of taxes by the Afghanistan government for which the U.S. government is not responsible and that are not allowable costs under the grants.

**Recommendation:** We recommend that HALO implement controls to ensure taxes are withheld and paid in accordance with Afghanistan Law.

# Attachment A – Consolidating Special Purpose Financial Statement

**For the Period of April 1, 2011 to March 31, 2015**

| | S-PMWRA-11-GR-0016 | | S-PMWRA-12-GR-1007 | | S-PMWRA-12-GR-1009 | | S-PMWRA-13-GR-1006 | | S-PMWRA-13-GR-1004 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual | Budget | Actual |
| Total Revenue | $1,056,000 | $1,056,000 | $6,500,000 | $6,500,000 | $1,107,900 | $1,107,900 | $3,750,000 | $3,750,000 | $2,350,000 | $2,338,721 |
| Cost Element | | | | | | | | | | |
| Personnel | $474,987 | $477,051 | $3,897,129 | $3,895,223 | $520,303 | $563,409 | $2,160,174 | $2,140,960 | $1,101,245 | $1,082,894 |
| Fringe | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $6,000 | $6,569 |
| Travel | $14,000 | $16,442 | $32,166 | $36,157 | $14,300 | $17,302 | $22,704 | $27,431 | $30,721 | $31,035 |
| Equipment | $101,280 | $106,569 | $77,499 | $77,499 | $25,000 | $41,841 | $0 | $11,470 | $276,482 | $268,662 |
| Supplies | $404,080 | $394,285 | $2,113,733 | $2,115,476 | $483,618 | $420,730 | $1,348,195 | $1,353,714 | $813,567 | $829,362 |
| **Total Direct Charges** | $994,347 | $994,347 | $6,120,527 | $6,124,355 | $1,043,221 | $1,043,282 | $3,531,073 | $3,533,575 | $2,228,015 | $2,218,522 |
| Indirect Costs (NICRA) | $61,653 | $61,653 | $379,473 | $375,645 | $64,679 | $64,618 | $218,927 | $216,425 | $121,985 | $120,199 |
| **TOTAL Cost** | $1,056,000 | $1,056,000 | $6,500,000 | $6,500,000 | $1,107,900 | $1,107,900 | $3,750,000 | $3,750,000 | $2,350,000 | $2,338,721 |
| **Outstanding Balance (deficit)** | | $0 | | $0 | | $0 | | $0 | | $0 |

# Attachment B – Prior Audit Reports Recommendations and Current Status

Prior audits, assessments or reviews that we considered applicable to the scope of our work were obtained and read to ensure that there were no significant deficiencies or material weaknesses noted. We did note significant deficiencies over internal controls in the prior audit reports. For significant and non-significant deficiencies affecting the grant grants, we performed test work to ensure proper corrective action was taken to resolve the impact of the deficiencies on the project. From a total of 5 distinct audit findings in prior audit reports, we closed 2 of the audit findings as being adequately addressed.

### KPMG prior audits of HALO

We obtained and reviewed HALO's A-133 audit reports for the years ended March 31, 2013, March 31, 2014 and March 31, 2015. For each year, the auditors reported significant deficiencies over internal controls over major programs.

**Findings 2013-001, 2014-001, 2015-001:** The prior audits disclosed, during payroll testing over salaries and wages, the lack of adequate controls, such as missing attendance records for 4 employees sampled out of 158 and non-employee expenses misclassified as labor costs, which resulted in questioned costs. It was recommended management reinforce its policy and ensure that attendance records and payroll are completed accurately and maintained with sufficient management oversight.

**Current Status:** This finding was included in this audit report, as the auditors noted that HALO did not have proper oversight of payroll and record keeping for after the fact reporting of effort charged to the grants. As a result, we concluded that HALO had not taken adequate corrective action to address this prior recommendation for payroll.

**Findings 2013-002, 2014-002:** The March 31, 2013 and 2014 audit reports disclosed, during procurement testing, that management was unable to provide reasonable justification for the lack of competition for sole source procurement in 12 out of 75 samples selected.

**Findings 2013-002, 2014-002, 2015-002:** In addition, the March 31, 2013, 2014 and 2015 audit reports included a finding for contracts and procurements that were made without verification of the contractors and vendors against the excluded parties' list system.

It was recommended that management update its current policies and procedures to require documentation of the justification for the lack of competitive bidding and to verify that vendors are not on the Excluded Parties List System for those procurements in excess of $25,000.

**Current Status:** These issues were included in this audit report as findings. The auditors noted that HALO had one exception of not verifying a contractor against the excluded parties' list system, although HALO has started to improve the policy by checking sam.gov. We also noted sole source procurements or procurements with less than 3 bids without a reasonable justification. As a result, we concluded that HALO had not taken adequate corrective action to address either of these prior recommendations for procurement.

**Finding 2013-003:** On the March 31, 2013 audit report, it was noted that capital expenditures were not excluded from total direct costs when calculating indirect costs, which resulted in indirect costs being recognized in excess of the amount allowed based on the applicable Negotiated Indirect Cost Rate Agreement (NICRA). It was recommended that management adhere to the guidelines of their current NICRA by excluding capital expenditures and sub-awards greater than $25,000, if applicable, from the indirect cost base.

**Current Status:** We concluded that HALO did take adequate corrective action to address this recommendation as we did not observe exceptions to the NICRA calculations.

**Finding 2014-003:** In the March 31, 2014 audit report, for 5 advances out of 70 tested, the cash advances were not timed as close as administratively feasible to the actual disbursement. In these cases, it was determined disbursements were made within 26 to 76 days after receipt of the advance. It was recommended that management continue to refine its process to ensure that cash advances are requested as close as administratively feasible to when the cash will be disbursed at the local overseas location.

**Current Status:** We concluded that HALO did take adequate corrective action to address this recommendation based on our fieldwork.

# Attachment C – Management Response

Humanitarian
mineclearance in

Afghanistan, Angola, Armenia, Burma/Myanmar, Cambodia, Colombia, Georgia, Ivory Coast, Kosovo, Laos, Mozambique, Nagorno Karabakh, Somaliland, Sri Lanka, West Bank, Zimbabwe, Central African Republic

THE HALO TRUST

GETTING MINES OUT OF THE GROUND, FOR GOOD.

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Washington DC 20036
USA

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***Summary of Management Comments on Audit Report***

The audit process took considerable time and effort with minimal notice periods. The strict deadlines set by the auditor, to which HALO was obliged to work, were inflexible and did not take into consideration HALO's prior commitments. On the other hand, on the auditor's side, dates were moved and commitments not kept without consideration or negotiation.

Examples of this are:

- Williams Adley advising the requirement to be hosted at HQ for a week with one month's notice.
- RBCO failing to attend on the day to which they had committed, and not attending regularly.
- RBCO taking 5 weeks in Kabul to perform their work, compared with the 2 weeks that had been advised.
- 7 weeks from the exit conference to the draft final report, instead of the advised 2 weeks.

Some of the findings are due to a lack of understanding and mis-communication through a language barrier by RBCO, and Williams Adley not taking the time to review these findings with HALO prior to their inclusion in the draft reports.

In Afghanistan national legislation is typically subject to frequent changes. The audit team in Kabul had a habit of referring to current day situations without considering the changes that have occurred in Afghanistan since 2011.

Full written responses are provided in Annex B, however in summary:

**Finding 2015-01:**
HALO disputes that it does not have attendance records and points out that its current payroll records system does meet requirements.

**Finding 2015-02:**
HALO disputes the finding and the Kabul audit team (RBCO) was provided with a full explanation about HALO's stock system delivering VfM.

**Finding 2015-03:**
HALO strongly disputes each of the findings

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**Finding 2015-04:**
HALO agrees that the $531 was incorrectly allocated. However, the audit team did not understand the process of net agreements with suppliers. HALO does withhold tax and pay this over to MTO; there is categorically no duplication of payment within HALO's accounts.

**Finding 2015-05:**
HALO does have financial management reports which are distributed to the Afghanistan team on a monthly basis. Since 2012-2013 and the issue of the variance requirements HALO has ensured that 10% is absolute value, not per Budget category.

**Finding 2015-06:**
The audit looked back from 2011 to 2015. HALO initiated this reconciliation and, since 2013, has carried out an annual review of all Capital Equipment registers and inventory records in line with donor requirements.

**Finding 2015-07:**
HALO considers one finding within its PMS reporting, which occurred due to a PMS system error, as immaterial.

**Finding 2015-08:**
HALO's procurement procedures (both in narrative and flow diagram format) clearly demonstrate that the Debarment and Suspension requirement is an integral part of its procedures. HALO sets the requirement to verify the debarment at a much lower level than $25,000 per annum set in the OMB guidelines. HALO always takes measures to ensure compliance with donor regulations.

**Finding 2015-09:**
This is a repeat of the findings under number 2015-04.

ADenton

Alexandra Denton
Finance Manager

8 February 2016

Humanitarian
mineclearance in

Afghanistan
Angola
Armenia
Burma/Myanmar
Cambodia
Colombia
Georgia
Ivory Coast
Kosovo
Laos
Mozambique
Nagorno Karabakh
Somaliland
Sri Lanka
West Bank
Zimbabwe
Central African Republic

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

HALO Afghanistan classifies its 3000+ employees into 3 categories, Operations, Support and Guards.
HALO does have records of attendance and times of work for the period which the unsupported payroll costs fall into (pre 2012) for all national employees. However, they are not held in the personnel files of the employee but in the records of the minefield, which appears to have caused confusion with RCBO. HALO Finance did visit the program during the period of audit and can confirm that attendance records did exist. In addition to this all of the A133 sampling did not highlight lack of attendance records. Although all of the sample pre 2012 did not satisfy the audit team, it can be concluded from the lack of comment relating to post 2012 files that these were indeed in place and hence that the current payroll record system does meet requirements.

**Finding 2015-02: Ineligible Equipment Cost (Significant Deficiency and Non-Compliance) Land rover ($38,781.00)**

There has been a fundamental misunderstanding by the audit team here. The HALO Trust (The HALO Trust (USA), Inc.'s related UK registered company) purchased over 50 Land Rovers directly off the production line for stock (note stock, not fixed assets). This was not only for mechanical reasons but also to provide Value for Money through Economies of Scale to the donors. These vehicles, as they became available from production, were moved to HALO's logistics base in the UK and held there until they were prepared and deployed to any country as required. As programs and funding became available, the vehicles were prepared (additional works done) to the standard of the country to which they were shipped and the respective costs were allocated against the grant funding **AT THIS POINT WHEN THE VEHICLE WAS FREIGHTED** to the end user.

The HALO Trust USA, (Inc). had the requirement and funding to purchase this asset under the grant.
The grant was signed with a period of performance from 1 April.
In April the vehicle was moved from the logistics base to the supplier to be converted to a field ambulance and prepared for the armor to be upgraded.
In May the vehicle had the armor fitted.
In July all export papers were ready for the vehicle to be freighted to Afghanistan.

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The fact that it did not become available in Kabul until February was far outside HALO's control, and was due to a series of freight issues after July while the vehicle was en-route to Afghanistan.
The vehicle was used on all subsequent grants to support the project.

**Finding 2015-03: Unsupported Supply Costs (Significant Deficiency and Non-Compliance)**

Accommodation ($301)
A misunderstanding: the landlord quotes a net figure that he wants in his hand and HALO then grosses this up, accounting for the tax. HALO refutes the accusation of any double accounting of the tax on ANY grant or contract; the audit team is misleading the reader here.

Food & Water ($8,088)
HALO received 2 quotes, which in December 2012 were all that were available. When the audit team state "there were a number of suppliers registered with AISA", they are not looking at a list from the date of the transaction but a current day status. Afghanistan has come a long way in what may seem a short period of time.

Fuel & Lubricants ($8,780)
Payment of goods with cash could not be confirmed.
The supplier would not be paid via bank or cheque, which at the time were not trusted payment methods within Afghanistan. Cash was taken from the safe, after approval of the purchase, and signed for by the procurement team; they then returned to the supplier to pay the invoice and receive the goods.
The safe book shows the cash being signed out on an open voucher for payment of this invoice and supply. HALO deems this to be proof that the payment of goods (and subsequent receipt of supplies) can be confirmed.

Vehicle Maintenance ($1,573)
Sole source justification provided states that there was only one dealer available for procurement of vehicle maintenance components such as oil, filter, tires etc. This amount includes approximately $567 for which competitive quotations were not obtained and $1,006 in payments to the police department that could not be confirmed. As the justification provided no further support, the rationale for the sole source procurements could not be determined. The auditors were able to verify that the procurement of oversized tires was justified on a non-competitive basis and removed these transactions from the questioned cost.

Vehicle Registration ($393)
The police department would not issue any paperwork for payment of registration, nor would they sign anything. There were, however, HALO internal papers to back up the PV.

**Finding 2015-04: Ineligible Costs Charged to Supplies (Internal Control Deficiency and Non-Compliance)**

Accommodation ($2,691)

A misunderstanding: the landlord quotes a net figure he wants in his hand and HALO then grosses this up, accounting for the tax. HALO refutes the accusation of any double accounting of the tax on ANY grant or contract; the audit team is misleading the reader here.

Food & Water ($2,668)
A misunderstanding: the supplier quotes a net figure that he wants in his hand and HALO then grosses this up, accounting for the tax. HALO refutes the accusation of any double accounting of the tax on ANY grant or contract; the audit team is misleading the reader here.

Fuel & Lubricants ($1,136)
A misunderstanding: the supplier quotes a net figure that he wants in his hand and HALO then grosses this up, accounting for the tax. HALO refutes the accusation of any double accounting of the tax on ANY grant or contract; the audit team is misleading the reader here.

Office Equipment ($531)
HALO reply – agreed this should not be charged to the grant,

**Finding 2015-05: Budget Line-item Overage (Internal Control Deficiency and Non-Compliance).**

HALO does have financial management reports which are distributed to the Afghanistan team on a monthly basis. The overage on the equipment line was reported in a quarterly narrative report, but not revised through a formal request on Grant Solutions.
Since 2012-2013 and the issuance of the variance requirements HALO has ensured that 10% is absolute value, not per Budget category.

**Finding 2015-06: Inventory Controls (Non-Compliance)**

The audit looked back from 2011-2015. HALO initiated this reconciliation and, since 2013, has carried out regular reviews of all Capital Equipment registers and inventory records.

**Finding 2015-07: Financial Reporting (Non-Compliance)**

The table as presented is misleading and looks as though HALO incorrectly over drew and under drew funds against the grant. In addition to this, the wording suggests that there were numerous (multiple) occasions on which this error was found, when in fact there was one. HALO has amended the table to demonstrate when the funds were available to draw on the Payment Management System (PMS). The $11,278 was reported on PMS in the quarter to 30 June 2015, as the contract was ongoing, however it appears that somewhere within PMS the data was rejected. HALO provided the audit team with a print of the data being corrected. PMS is temperamental in its operation and complicated in its FCTR which does not reconcile to the grant totals; the formal financial report submitted with the narrative report was accurate.

| 13-GR-1004 | | | | |
|---|---|---|---|---|
| Period End | Available funds to draw | Net project disbursement (from PMS) | Total Disbursement per GL (expenditure) | Difference |
| 6/30/13 | 110,000.00 | 110,000.00 | 217,328.49 | - 107,328.49 |
| 9/30/13 | 40,000.00 | 313,674.98 | 198,956.73 | 114,718.25 |
| 12/31/13 | 950,000.00 | 280,733.05 | 287,973.16 | - 7,240.11 |
| 3/31/14 | | 395,591.97 | 384,463.04 | 11,128.93 |
| 6/30/14 | | | 227,750.66 | - 227,750.66 |
| 9/30/14 | 1,250,000.00 | 632,627.57 | 404,876.94 | 227,750.63 |
| 12/31/14 | | 328,851.43 | 327,892.66 | 958.77 |
| 3/31/15 | | 288,521.00 | 289,479.74 | - 958.74 |
| TOTAL | 2,350,000.00 | 2,350,000.00 | 2,338,721.42 | 11,278.58 |

**Finding 2015-08: Debarment and suspension common rule (Non-Compliance)**

It is categorically incorrect to state HALO does not have a system in place. HALO's procurement procedures (both in narrative and flow diagram format) clearly demonstrate that this requirement is an integral part of its procedures which in fact set the requirement to verify the debarment at a much lower level than $25,000 per annum. HALO always takes measures to ensure compliance with donor regulations. This is conducted through presentations, internal audits and written communications. At each point below, debarment and suspension was highlighted.

Currently – Spot checks are conducted on programs purchasing assets in country
September 2015 – Post audit email sent out to programs
December 2014 – Training session held at Annual Meeting
January 2014 – Procurement work flow diagram issued globally with guidelines on how to use sam.gov
January 2013 – Global issue of standard sam.gov stamp for verification
December 2012 – Training and detailed explanation at Annual Meeting

You may ask if our message is getting across if we continue to re-visit points, however it is felt that as employees change roles and as national staff develop it is important to re-visit key compliance points.

**Finding 2015-09: No Withholding Tax (Non-Compliance)**

HALO is looking to find those suppliers who are registered with the AISA (Afghanistan Investment Authority); the tax calculation for those suppliers who have AISA licenses is only 2%, whereas those who are not registered will be liable to 7% tax payment. All HALO Annual Financial Declaration Statements known as "Izhar nama" up to 1393 (2014) had been vetted and accepted by the Ministry of Finance MTO (Medium Tax Payers Office). HALO has now changed the way that contracts are written with various suppliers and vendors, so that tax payment as per the Tax Law will be the sole responsibility of the suppliers, but HALO will deduct the amount of tax due from the supplier and will pay to the Central Bank of Afghanistan (Da Afghanistan Bank) and will keep the receipts attached to the original invoice. This will ensure that taxes are paid and that they are deducted from suppliers by HALO. Thus HALO ensures that tax is paid to the Government and we keep a record of the payments.

#### HALO's Prior Audit Report and Recommendations

In Attachment C Williams Adley list 5 Findings, 4 of which have a "Current Status" underneath them, 1 has no "Current Status". Williams Adley deem that 2 are cleared and 2 are not cleared but fail to assess the 5th. HALO deems that there are 3 cleared and 2 not cleared.

Of the 2 not cleared, Finding 2014-003 refers to Finding 2015-07: Financial Reporting (Non-Compliance) of this report. HALO feels that it has taken measures to ensure PMS reporting is compliant, but again re-iterates that PMS only allows reporting on grants where funding is released and consolidates the data by the value of funds released, not the value of the grant; hence it becomes difficult for the user to reconcile. This is why Financial Reports are attached to the narratives.

In the same attachment Williams Adley list the following finding "Findings 2013-001, 2014-001, 2015-001:" as containing unallowable expenses for 1 employee that were added into salary expenses. Williams Adley have mis-interpreted some data;

2015-001 1 attendance record missing
2014-001 1 attendance record missing
2013-001 1 attendance record missing

At no point does KPMG list unallowable employee expenses within these findings.

ADenton

Alexandra Denton
Finance Manager

8 February 2016

# Attachment D – Auditor's Response to Management Comments

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

### Finding 2015-01

HALO management states in its response that attendance records for unsupported payroll costs for all National employees are available in the records of the minefield. This finding pertains to the unavailability of support for the manner in which these payroll costs were allocated across State Department grants or the approval from State Department for use of an alternate system of allocation. HALO management's response does not address the cause or substance of this finding and as such these costs remain questioned.

### Finding 2015-02

HALO management's response to this finding does not address whether or not they received approval from the State Department for the purchase of the vehicle prior to commencement of the grant. The amount in this finding was questioned due to the lack of approval from the State Department. HALO management's response does not bring any new information to light and as such this cost remains questioned.

### Finding 2015-03

<u>Accommodation:</u> The amount in question pertains to HALO's inability to provide the auditors with necessary support. HALO management's response does not address the requirement and as such this cost remains questioned.

<u>Food & Water:</u> HALO claims that at the time of purchase from this supplier there were only two AISA registered vendors, and as such, they were unable to get three quotations. HALO did not have any documentation to support this claim during fieldwork as such this cost remains questioned.

Fuel and lubricants: This finding remains questioned as payment of goods cannot be confirmed using internal records created by HALO. An invoice with a paid stamp from the supplier is required.

Vehicle registration: HALO management states in its response that they have internal documentation available to support this cost. HALO's internal documentation, even if provided, may be considered insufficient independent evidence to support this cost. As a result, the questioned cost remains unchanged.

**Finding 2015-04**

Accommodation, Food & Water, Fuel & Lubricants: Withholding tax must be deducted from the amount stated on the suppliers/landlords invoice. The taxes withheld must then be paid to the Afghan government within a specified period of time. HALO is currently not withholding the tax, instead, they are paying the invoice in full and also charging the withholding tax to the grant. HALO management's response does not bring any new information to light and as such these costs remain questioned.

**Finding 2015-05**

There was no formal approval request made for the overages observed in the budget line items and as such this cost remains questioned.

**Finding 2015-06**

HALO management agreed with this finding and stated in its response that beginning in 2013, they put systems in place to review capital equipment registers. HALO's response did not address the lack of insurance for equipment purchased with grant funds.

**Finding 2015-07**

The table presented by Williams Adley represents the difference between the disbursements that were observed in HALO's general ledger and what was reported to Department of State as per form SF-425. The table does not mention draw of funds by HALO at all, although there is a statement in the condition section of the finding clarifying the fact that HALO did not draw funds in excess of what was expended. The table presented by Williams Adley accurately reflected all instances where HALO did not report their disbursements accurately for Grant 13-GR-1004 based on the general ledger HALO provided to us for this grant. Out of 8 reporting periods presented, there were 8 periods where HALO did not report disbursements accurately when compared to its general ledger, which should reflect HALO's expenditure activities. HALO's response did not address the finding we presented, and as such, the finding remains as stated.

### Finding 2015-08

Williams Adley agrees that HALO has policies and procedures in place to verify vendor eligibility through sam.gov, however, the enforcement of the policies and procedures is the focus of this finding. Management's comments were non-responsive to the stated issue, and as a result, this finding remains as stated.

### Finding 2015-09

HALO management in its response stated that it has changed the way that contracts are written with suppliers and vendors so that tax payments will be the sole responsibility of the suppliers, but also stated that it would deduct the tax amount due and pay it to the Central Bank of Afghanistan. These contradictory statements are confusing and do not provide reasonable assurance that this issue has been adequately addressed. We recommend that HALO revisit this issue and clarify a corrective action that unambiguously addresses the finding to ensure compliance with Afghan tax laws.

### Prior Audit Report Findings and Recommendations

HALO management contends that we did not list the current status of 1 of the 5 categories of findings for prior audit reports we reviewed, and that 3 of the 5 findings should be cleared. HALO further stated that we misinterpreted data relating to attendance records and used the term "unallowable employee expenses", which is a term not included in KPMG's reports.

We believe HALO is confused as to our placement of the current status naming convention that we used. As the second and third categories of findings were generally associated with the same finding numbers (2013-002, 2014-002 and 2015-002), we used one current status paragraph to describe our assessment of the two issues presented in those findings, i.e., checking for excluded parties and documenting non-competitive justifications, neither of which was fully resolved based on our testwork. As such, 3 of the 5 prior audit findings remain as current issues.

We are unsure how our statement concerning the missing attendance records is different than management's statement saying the same thing. HALO may have blended the comment concerning missing attendance records with the comment concerning unallowable employee expenses, which was a different issue. The KPMG report included a condition in finding 2015-001 that stated HALO's policy of classifying payments for lost crops and road access as casual labor, while perhaps allowable costs, should not be categorized as labor for non-employees not subject to time and effort reporting requirements. We agree with HALO that the term "unallowable expenses for one employee" should not have been used and that a more accurate term, "non-employee expenses were misclassified as labor costs," should have been used to describe the prior audit finding. The report was updated to reflect this more accurate terminology.

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