

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR Financial Audit 13-5

**USAID's Program to Support the Loya Jirga and Election
Process in Afghanistan: Audit of Costs Incurred by The Asia
Foundation**



**JUNE
2013**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 17, 2013

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

Ms. Sarah W. Wines
Acting Mission Director for Afghanistan
U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by The Asia Foundation under a USAID cooperative agreement, "Support for the Loya Jirga¹ and Election Process in Afghanistan Program."² The audit covered the period August 1, 2003, through April 30, 2010, and was performed by Crowe Horwath LLP. It covered \$84,859,955 in expenditures.

The purpose of the cooperative agreement was to support the election process managed by the Afghan Constitutional Loya Jirga, assist in the establishment of the High Office of Oversight for Anti-Corruption,³ and provide technical assistance to the Afghan government.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of The Asia Foundation's Fund Accountability Statement;⁴
- determine and report on whether The Asia Foundation has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in The Asia Foundation's financial internal controls; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

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

Crowe Horwath found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the contract and identified no recommendations from prior audits or assessments for follow-up or corrective action. Nevertheless, Crowe Horwath reported five internal control deficiencies and four instances of noncompliance, which prompted the auditors to question a total of \$26,381

¹ A Loya Jirga is a grand council used to resolve political conflicts or other national problems.

² USAID cooperative agreement no. 306-A-00-03-00504-00 to support the election process, to establish an anti-corruption office, and to provide technical assistance to the Afghan government.

³ Created by President Karzai in July 2008, the High Office of Oversight for Anti-Corruption coordinates and supervises Afghanistan's National Anti-Corruption Strategy. For additional information, see SIGAR Audit 10-2, *Afghanistan's High Office of Oversight Needs Significantly Strengthened Authority, Independence, and Donor Support to Become an Effective Anti-Corruption Institution*, December 16, 2009.

⁴ The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

in costs. The \$26,381 in questioned costs included \$5,457 in ineligible costs⁵ and \$20,924 in unsupported costs.⁶

See table 1 below.

Table 1 - Summary of Questioned Costs

| Category | Questioned Costs Total | Ineligible | Unsupported |
|------------------------|---------------------------|------------|-------------|
| Personnel and benefits | \$23,081 | \$4,810 | \$18,271 |
| Indirect costs | \$3,300 | \$647 | \$2,653 |
| Totals | \$26,381 | \$5,457 | \$20,924 |

In addition, the audit found that The Asia Foundation had not remitted an estimated \$110,333 in interest revenue earned on advances given by USAID.

Given the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$26,381 in questioned costs (\$5,457 ineligible and \$20,924 unsupported) identified in the report.
2. Recover the estimated \$110,333 in interest revenue earned from advances provided.
3. Advise The Asia Foundation to address the five internal control findings identified in the report.
4. Advise The Asia Foundation to address the four compliance findings identified in the report.

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



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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

⁶ Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the propriety of costs was not made available.



The Asia Foundation

Fund Accountability Statement – Support for the Loya Jirga and Election Process

For the Period August 1, 2003, through April 30, 2010

(With Independent Auditor's Report Thereon)

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Transmittal Letter

May 29, 2013

To the Board of Trustees of The Asia Foundation
465 California Street
San Francisco, California 94104

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

We appreciate the opportunity to provide to you our final report reflecting upon the procedures that we completed during the course of our audit of The Asia Foundation's cooperative agreement with the United States Agency for International Development funding the Support for the Loya Jirga and Election Process in Afghanistan (Award Number 306-A-00-03-00504-00) Program).

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

We previously provided to SIGAR a draft report reflecting upon our audit procedures and results. The Asia Foundation received a copy of the report and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, in addition to both the written and oral feedback provided by The Asia Foundation and SIGAR. The Asia Foundation's responses 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 The Asia Foundation's Support for the Loya Jirga and Election Process in Afghanistan Program.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring", written over a horizontal line.

Bert Nuehring, CPA, Partner
Crowe Horwath LLP

Summary

Background

The Asia Foundation (the “Foundation”) was awarded a cooperative agreement by the United States Agency for International Development (“USAID”) to provide support to the government of Afghanistan in its effort to strengthen governance and continue building democracy. The cooperative agreement – 306-A-00-03-00504-00 – incorporated an initial ceiling price of \$10,000,000 and a period of performance of August 1, 2003, through November 30, 2004. Through subsequent extensions and budgetary increases, the final completion date was established as April 30, 2010, with a budget of \$86,958,175 through the twenty-sixth modification to the agreement. The Foundation expended \$84,859,955 during the project period.

Throughout the seven years that project activities were being executed, the Foundation worked to support the election process managed by the Constitutional Loya Jirga, assisted in the establishment of the High Office of Oversight for Anti-Corruption within the Office of the President, the Independent Directorate for Local Governance, and the Ministry of Foreign Affairs, and provided technical assistance to the government. As reported in the Foundation’s final report on the Strategic Support to the Government of the Islamic Republic of Afghanistan project, results (unaudited by Crowe Horwath LLP) included, but were not limited to, the following:

- Transformation of the organizational structure, systems, and management of the Office of Administrative Affairs and the Office of the Chief of Staff in the Office of the President;
- Operational improvement in the Center of Government and Office of the President through automation of key financial and human resources administrative processes;
- Delivery of training to strengthen staff capacity and workplace knowledge;
- Development of the Independent Directorate for Local Governance’s Afghanistan Social Outreach Program and establishment and support for the first shuras in Wardak province;
- Launch of seven simultaneous public consultation workshops on the draft sub-national governance policy to gather inputs and comments from key stakeholders; and
- Retraining of twenty percent of the diplomats and staff to better implement Afghanistan’s foreign policy.

Project work concluded on April 30, 2010, and the cooperative agreement-funded project has been closed.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of The Asia Foundation’s Support for the Loya Jirga and Election Process in Afghanistan Project.

Objectives Defined by SIGAR

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

Audit Objective 1 – Internal Controls

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

Audit Objective 2 – Compliance

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

Audit Objective 3 – Corrective Action on Prior Audit Recommendations

Determine and report on whether the audited entity has taken adequate corrective action on prior external audit report recommendations or other external assessment recommendations.

Audit Objective 4 – Fund Accountability Statement

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

Scope

The scope of the audit included the period from August 1, 2003, to April 30, 2010, and was limited to those matters and procedures pertinent to the agreement that have a direct and material effect on the Fund Accountability Statement ("FAS") and evaluation of the presentation, content, and underlying records of the FAS. The audit included reviewing the financial records that support the FAS to determine if there were material misstatements, the FAS was prepared in accordance with accounting principles generally accepted in the United States of America, and the FAS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Period of Availability of Federal funds;
- Procurement;
- Subrecipient Monitoring;
- Reporting;
- Special Tests and Provisions, including evaluation of The Asia Foundation's Code of Business Ethics, review of the methodology used to determine if a subcontractor was involved in or diverted funds to terrorist activities, and conduct of inquiries to determine if known credible dishonest acts, fraud, waste, or abuse were reported to the Office of the Inspector General;
- Equipment and Real Property Management; and
- Eligibility.

Methodology

To meet the aforementioned objectives, Crowe identified – through review and evaluation of the terms of the cooperative agreement executed by and between the Foundation and USAID, the Code of Federal Regulations, the Federal Acquisition Regulation (“FAR”), and the USAID Acquisition Regulation (AIDAR) – the criteria against which to test the Fund Accountability Statement and supporting financial records and documentation. The auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by The Asia Foundation to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations.

Using sampling techniques, Crowe selected samples of expenditures, procurements, inventories, assets that were disposed of after the cooperative agreement’s performance period, and quarterly financial reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess The Asia Foundation’s compliance. 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 agreements.

Due to the nature of the contracted work, a significant quantity of subcontractors and beneficiaries were and are still located in Afghanistan. As such, certain audit procedures were performed on-site in Afghanistan, as deemed necessary.

Summary of Results

Upon completion of Crowe’s procedures, the auditor identified five findings. Items were classified as findings if the underlying issue was considered to be a significant deficiency in internal control, material weakness in internal control, and/or noncompliance with rules, laws, regulations, or the terms and conditions of the cooperative agreement. Matters that were identified during the course of the audit, but were not classified as findings using the aforementioned three criteria, were reported to The Asia Foundation within a management letter dated May 29, 2013.

Crowe issued an unqualified opinion on the Fund Accountability Statement.

Crowe also reported on The Asia Foundation’s internal controls and compliance regarding the Fund Accountability Statement. Five significant deficiencies in internal control were reported and four findings pertained to matters of noncompliance. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. Crowe questioned \$26,381 in costs. The questioned costs are summarized in the following table.

TABLE A: Summary of Findings and Questioned Costs

| Finding Number | Matter | Questioned Costs | Cumulative Questioned Costs |
|--------------------------------|---|------------------|-----------------------------|
| 2012-01 | Interest Owed to the Federal Government | \$0.00 | \$0.00 |
| 2012-02 | Payment on the Advance Basis | \$0.00 | \$0.00 |
| 2012-03 | Payroll Cost Allocation | \$5,457 | \$5,457 |
| 2012-04 | Supporting Documentation for Employee Labor Charges | \$20,924 | \$26,381 |
| 2012-05 | Subrecipient Monitoring | \$0.00 | \$26,381 |
| Total Questioned Costs: | | | \$26,381 |

Finding 2012-01 includes \$110,333 in estimated interest that is payable to the Government based on excess funds maintained by the Foundation from advance payments. This amount is not reflected as a questioned cost as the amount reflects foregone interest that would have been received or earned by the Government and does not have an impact on the costs incurred.

Crowe also reviewed prior audit reports to determine if there were findings previously reported that pertained to the project under audit. No such matters were identified during review of audit reports for the Foundation's fiscal years ended September 30, 2003, through September 30, 2011, which encapsulated the full period of performance. Accordingly, there was no additional follow-up on prior audit findings required and corrective action was not required to be evaluated.

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

Summary of Management Comments

The Foundation's management provided responses to each of the findings identified in Crowe's report on May 26, 2013. The Foundation's management stated that:

1. No imputed interest is due to the U.S. Government due to the Foundation's having made drawdowns for multiple awards simultaneously and, when evaluating the Federal funds on-hand for all Federally-funded projects, there not being an excess cash balance;
2. An archive of written policies and procedures should be maintained and that management should review payment requests prior to submission, but also indicated that funds were not received on the advance basis;
3. There was ambiguity regarding which organization funded the work in question, but that the costs are eligible under the award;
4. The timesheets could not be located due to the passage of time, but that the costs are eligible based on interviews with staff; and
5. The subrecipient monitoring files were unable to be located and an electronic archival system will be implemented.

References to Appendices

The auditor's reports are supplemented by two appendices. **Appendix A** presents a schedule showing the calculation of the interest amount payable to the Government as referenced in Finding 2012-01. **Appendix B** includes the Views of Responsible Officials, which are management's responses to the findings presented within the report. In addition to the narrative response, the Foundation provided supporting documentation that was not available prior to the initial drafting of the report in support of its

positions. The supporting documentation has not been included as a component of **Appendix B**, but has been provided to SIGAR under separate cover. Based on management's responses to the findings and the supporting documents, Crowe modified the report as it deemed appropriate. **Appendix C** contains the auditor's rebuttal to management's responses, which is intended to clarify matters of fact or disagreement between management and the auditor as required by *Government Auditing Standards*.

INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

To the Board of Trustees of The Asia Foundation
465 California Street
San Francisco, California 94104

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

Report on the Fund Accountability Statement

We have audited the Fund Accountability Statement (the "Statement") of The Asia Foundation (the "Foundation") for award number 306-A-00-03-00504-00 for the period August 1, 2003, through April 30, 2010, and the related notes to the Statement.

Management's Responsibility for the Fund Accountability Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

(Continued)

Opinion

In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, budgeted, actual, ineligible and unsupported program revenues, costs incurred and reimbursed, and remaining fund balance for the Period August 1, 2003, through April 30, 2010, in accordance with the terms of the cooperative agreement and in conformity with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated May 29, 2013, 2013, on our consideration of the Foundation's internal controls and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

A handwritten signature in dark ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

May 29, 2013
Washington, D.C.

The Asia Foundation
Fund Accountability Statement
For the Period August 1, 2003, to April 30, 2010

| | | | Questioned Costs | | |
|---------------------------------|--------------|-----------------|------------------|-------------|-------|
| | Budget | Actual | Ineligible | Unsupported | Notes |
| Revenues | | | | | |
| USAID - 306-A-00-03-00504-00 | \$86,958,175 | \$84,859,954.54 | | | |
| Total Revenue | \$86,958,175 | \$84,859,954.54 | | | 4 |
| Costs Incurred | | | | | |
| Personnel & Benefits | \$5,183,598 | \$4,543,395.41 | \$4,810 | \$18,271 | A, B |
| Other Direct Costs | \$64,132,324 | | | | |
| Direct Travel Expense | | \$2,438,052.07 | | | |
| Direct Contractual Services | | \$17,794,145.50 | | | |
| Direct Facilities Expense | | \$880,905.28 | | | |
| Direct Communication & Supplies | | \$1,025,933.19 | | | |
| Direct Equipment Expense | | \$481,347.35 | | | |
| Direct General Expense | | \$1,077,771.36 | | | |
| Direct Insurance Expense | | \$169,966.64 | | | |
| Books for Asia | | \$714.87 | | | |
| Unburden Contractual Services | | \$40,393,506.33 | | | |
| Unburdenable Equipment | | \$2,492,216.96 | | | |
| Budget - ODCs | | \$1,991,718.55 | | | |
| Subtotal ODCs | | \$68,746,278.10 | | | |
| Subrecipient Expenses | \$9,218,555 | | | | |
| G: Travel Expenses | | \$253,741.09 | | | |
| G: Contractual Services | | \$32,421.00 | | | |
| G: Commun & Supplies | | \$6,982.00 | | | |
| G: Equipment Expense | | \$16,455.00 | | | |
| G: General Expense | | \$37,290.89 | | | |
| G: Insurance Expense | | \$923.45 | | | |
| G: Advances | | \$1,635,307.92 | | | |
| Sub Contracts | | \$138,170.35 | | | |
| G: Unburdenable Advances | | \$1,842,163.76 | | | |
| Sub contracts - Unburden | | \$179,977.00 | | | |
| Subtotal Subrecipient Expenses | | \$4,143,432.46 | | | |

| | | | | | |
|--|---------------|-----------------|---------|----------|------|
| Implementing Costs | | | | | |
| Budget - Implementation | \$3,611,874 | \$14,460.00 | | | |
| Transfer Cost | | (\$33,944.18) | | | |
| Implementing - Logistics | | \$2,314,140.32 | | | |
| Implementing - Facilities | | \$552,804.50 | | | |
| | | | | | |
| Subtotal Implementing Costs | | \$2,847,460.64 | | | |
| | | | | | |
| Subtotal ODC's | | \$75,737,171.20 | | | |
| | | | | | |
| Indirect Costs | \$4,811,825 | \$4,579,387.93 | \$647 | \$2,653 | A, B |
| | | | | | |
| Total Costs Incurred | \$86,958,175 | \$84,859,954.54 | \$5,457 | \$20,924 | |
| | | | | | |
| <i>Outstanding Fund Balance</i> | <u>\$0.00</u> | <u>\$0.00</u> | | | 7 |

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

The Asia Foundation¹
Notes to the Fund Accountability Statement
For the Period August 1, 2003, through April 30, 2010

Note 1. Basis of Presentation

The accompanying Fund Accountability Statement (the "Statement") includes costs incurred under Award number 306-A-00-03-00504-00 for the Support for the Loya Jirga and Election Process activities for the period August 1, 2003, through April 30, 2010. Because the Statement presents only a selected portion of the operations of The Asia Foundation (the "Foundation"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foundation. The information in this Statement is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal award. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were not required. The Asia Foundation draws funds down from USAID on a reimbursement basis and transfers funds from headquarters accounts wherein funds are maintained in U.S. dollars to the financial institutions utilized by local offices. The local financial institutions convert funds to the local currency for payment purposes.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which the Foundation is entitled to receive from USAID for allowable, eligible costs incurred under the cooperative agreement during the period of performance.

Note 5. Questioned Costs

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

¹ The Notes to the Fund Accountability Statement denoted herein are the responsibility of The Asia Foundation.

Questioned costs are detailed within the Schedule of Findings and Questioned Costs that accompanies the Independent Auditor's Report on Compliance. Total questioned costs identified by the auditor are \$26,381.

Note 6. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget costs presented within the final, USAID-approved cooperative agreement budget adopted as a component of the twenty-fifth modification to the cooperative agreement dated October 26, 2009. Due to certain line items within the budget approved by USAID including multiple components (i.e. salaries/wages, supplies, and implementation costs) and the Foundation's accounting system requiring the segregation of costs by cost type, the categorical amounts shown on the FAS will not agree to the twenty-fifth modification on a per line item basis. The Foundation retains supplemental schedules that reconcile the budgeted costs per the modification to those amounts presented on the FAS.

Note 7. Fund Balance

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

Note 8. Currency

All amounts presented are shown in U.S. dollars - the reporting currency of The Asia Foundation.

Note 10. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the August 1, 2003, through April 30, 2010, period of performance. Management has performed their analysis through May 29, 2013 - the date the Statement was available to be issued.

Notes to the Questioned Costs Presented on the Fund Accountability Statement²

Note A. Questioned Costs – Payroll Cost Allocation

Finding 2012-03 questions \$5,457, inclusive of associated indirect costs, due to labor costs having been charged to the award for work conducted on another project.

Note B. Questioned Costs – Supporting Documentation for Salary and Wage Costs

Finding 2012-04 questions \$20,924, inclusive of associated indirect costs, due to timecards not having been signed by the employee and applicable supervisor as required by Federal cost principles, and lack of support for the amount charged to the program for one employee.

² Notes to the Questioned Costs Presented on the Fund Accountability Statement were developed by and are the responsibility of the auditor.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Trustees of The Asia Foundation
465 California Street
San Francisco, California 94104

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

We have audited the Fund Accountability Statement (the "Statement") of The Asia Foundation (the "Foundation") for the period August 1, 2003, through April 30, 2010, and have issued our report thereon dated May 29, 2013, which included an unqualified opinion. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free of material misstatement.

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

In planning and performing our audit of the Fund Accountability Statement for the period August 1, 2003, through April 30, 2010, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide an opinion on internal control over financial reporting. Accordingly, we do not express such an opinion on internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described above and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses under standards established by the American Institute of Certified Public Accountants ("AICPA") and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. We did not identify any deficiencies in internal controls that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies as identified in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies: Findings 2012-01, 2012-02, 2012-03, 2012-04, and 2012-05.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

We noted certain matters that we reported to the Foundation's management in a separate letter dated May 29, 2013.

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

A handwritten signature in dark ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

May 29, 2013
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Trustees of The Asia Foundation
465 California Street
San Francisco, California 94104

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

We have audited the Fund Accountability Statement (the "Statement") of The Asia Foundation (the "Foundation") for the period August 1, 2003, through April 30, 2010, and have issued our report on it dated May 29, 2013, which included an unqualified opinion.

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 Fund Accountability 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 Fund Accountability Statement amounts.

Compliance with agreement terms and laws and regulations applicable to the Foundation is the responsibility of the Foundation's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of The Asia Foundation'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.

Four instances of noncompliance that are required to be reported in accordance with Government Auditing Standards were discovered during our procedures. These instances are described in findings: 2012-01, 2012-02, 2012-03, and 2012-04.

The purpose of this report is solely to describe the scope of our testing of compliance with the terms and laws and regulations that have a direct and material effect on the Statement and the results of that testing, and not to provide a legal determination of compliance with those requirements or an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

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


Crowe Horwath LLP

May 29, 2013
Washington, D.C.

SECTION 1 – SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2012-01: Cash Management: Interest Owed to the Federal Government

Significant Deficiency and Non-Compliance

Criteria: The provisions of 22 CFR Part 226.22 limit cash advances to the minimum amounts needed and draw down requests must be timed to be in accordance with the actual, immediate cash requirements for the program. In addition, 22 CFR Part 226.22 requires that funds received through the advance payment mechanism must be maintained in interest-bearing accounts and, per the cooperative agreement, interest in excess of \$250 per year shall be remitted to the Government.

Condition: The Asia Foundation, from the beginning of the award through June 2007, obtained cash advances from USAID in excess of what was needed for immediate cash needs against the letter of credit approved by USAID for payment of costs incurred under the cooperative agreement. During a review of amounts drawn down over the course of sixty months relative to each month's expenditures, excess cash was calculated for twenty-three months. Excess cash was defined, for purposes of the audit, as the cumulative amount of funds drawn down that exceeded the sum of the project's cumulative expenditures as of month-end and the expenditures for the subsequent month. The amount of excess cash ranged from \$51,546 to \$4,773,731. By the completion of the project, The Asia Foundation had expended the full balance of funds drawn down from USAID.

The Foundation provided documentation indicating that the advanced funds were held in interest-bearing accounts. Documentation showing that interest was remitted to the U.S. Government, however, was not provided.

Utilizing the daily interest rates identified by the United States Department of the Treasury for cash management purposes, the calculated amount of interest that would have been earned by the Foundation for drawdowns tied to expenditures through June 2007 (the conclusion of the forty-five month period assessed) is \$111,333. The Asia Foundation is permitted to keep \$250 in interest per year per the cooperative agreement, which reduces the anticipated interest payable to \$110,333 for the fiscal years 2004 through 2007. Excess cash balances were not identified in fiscal year 2008. Fiscal years 2009 and 2010 were not evaluated as monthly expenditure reports were not provided for the period. The Foundation began drawing down funds on a reimbursement basis during fiscal years 2009 and 2010.

See Appendix A of this report for a schedule presenting the calculation of interest owed to the Government. Note that this schedule was revised upon receipt of additional supporting documentation provided by the auditee in conjunction with and immediately preceding receipt of management's responses. Accordingly, the schedule will not be fully consistent in terms of format to the schedule in management's response showing a sixty-month period.

Questioned costs: None. The estimated amount to be remitted to USAID is \$110,333. Due to this amount pertaining to interest earned on advanced funds rather than costs incurred, the amount is not included on the Fund Accountability Statement.

Effect: USAID had fewer program dollars available for program purposes at the time of the Foundation's draws due to the excess cash held by the Foundation.

Cause: The Foundation utilized two different approaches to obtaining payment from USAID and, when electing to proceed with reimbursements rather than advances, did not expend the remaining cash on hand from previous advances prior to adjusting the approach. Due to changes in financial management, including changes in the organization's chief financial officer, the rationale for the change in payment approach is presently unknown. In addition, The Asia Foundation calculated draw amounts based on projected cash needs; however, the full amounts were not needed in each instance due to vendor payments being withheld or delayed pending additional review and evaluation. The resulting excess cash amounts were not taken into account for future draws, which resulted in trending excess cash balances.

Recommendation: We recommend that the Foundation remit the \$110,333 in interest owed to the Government or provide documentation to USAID that demonstrates that interest was earned and previously remitted to the Government.

The Asia Foundation should also conduct an analysis of the cash balances for fiscal years 2009 and 2010, the timing of actual cash disbursements relative to dates that funds were drawn down, and identify the number of days that elapsed between the use of funds drawn down and the disbursement of allowable project expenditures to ensure that the reimbursement basis for payment was consistently utilized. Using the results of the analysis, The Asia Foundation should calculate the amount of interest owed to the Government, if any, provide the results of the analysis and calculation to USAID, and remit the payment to the U.S. Department of Health and Human Services as required by the cooperative agreement and the provisions of 22 CFR Part 226.22.

Finding 2012-02: Cash Management: Payment on the Advance Basis

Significant Deficiency and Non-Compliance

Criteria: Attachment 1 of the cooperative agreement provides for payment by Letter of Credit, which is an advance payment mechanism as defined by 22 CFR Part 226.22(c)(1). Recipients receiving payment on the advance basis are required to maintain written procedures that minimize the time elapsing between the transfer of funds and disbursement by the recipient, as per 22 CFR Part 226.22(b)(1).

Condition: The Foundation was unable to produce a written policy or procedure for cash advances that would minimize the time elapsing between the receipt of funds from USAID and disbursement of such funds. During the course of the project, the Foundation applied two different methodologies to obtaining payment from USAID. The Asia Foundation obtained payment on an advance basis then later began to request payment using amounts approximately equal to the project expenditures as shown in project status reports for a given period. The Foundation considered the second approach to be a "reimbursement" basis approach.

Questioned costs: None.

Effect: There is a risk of improper payments from USAID due to lack of a documented procedure, inconsistent approaches to payment methods, and lack of management review of payment requests.

Cause: The Asian Foundation could not identify the reason for the change in payment approach or the inability to produce a written policy or procedure. The Foundation believes that the time that has elapsed between the start of the project and the time of the audit has presented challenges in locating historical policies and procedures.

Recommendation: We recommend that the Foundation:

- 1) Maintain an archive of organizational policies and procedures, including historical versions of approved and implemented documents;
- 2) Require review and approval of a member of financial management prior to submission of payment requests to help ensure compliance with applicable rules and regulations; and
- 3) Adopt a written policy or procedure for obtaining and managing advance payments from the Government.

Finding 2012-03: Allowable Costs – Payroll Cost Allocation

Significant Deficiency and Non-Compliance

Criteria: OMB Circular A-122 requires that costs be allocable to a Federal award in order for such costs to be allowable. To be allocable to a Federal project, a cost must be incurred specifically for the award, distributed in reasonable proportion to the benefits received, or be necessary to the overall operation of the organization.

Condition: Costs associated with hours worked by employee 2773 on the Afghanistan Government Media Center (AGMC) Canada project were transferred to the "USAID Elections Program" due to costs for the individual's labor not having been included in the personnel costs budgeted on the Canada portion of the project. The original, signed timesheets allocated 140.5 hours and \$4,811 to the Canada program. The Canadian Department of Foreign Affairs and International Trade was one of five entities funding the AGMC efforts. The memorandum requesting the transfer was dated May 11, 2009, and was applied to each two-week timesheet period beginning October 17, 2008, through the period May 15, 2009 (fifteen total periods). Costs incurred on the AGMC Canada project are not allocable to the USAID Elections Program and are, therefore, unallowable.

The following table summarizes the costs transferred into the USAID project account:

| Fiscal Year | Amount | Hours | Timesheet Date | Original Timesheet Date |
|--------------------|----------------|--------------|-----------------------|--------------------------------|
| 2009 | \$225 | 6.90 | 5/2/2009 | 10/17/2008 |
| 2009 | \$332 | 10.20 | 5/3/2009 | 10/31/2008 |
| 2009 | \$244 | 7.50 | 5/4/2009 | 11/14/2008 |
| 2009 | \$228 | 7.00 | 5/5/2009 | 11/28/2008 |
| 2009 | \$234 | 7.20 | 5/6/2009 | 12/12/2008 |
| 2009 | \$684 | 21.00 | 5/7/2009 | 12/26/2008 |
| 2009 | \$342 | 10.50 | 5/7/2009 | 12/26/2008 |
| 2009 | \$144 | 4.00 | 5/8/2009 | 1/9/2009 |
| 2009 | \$172 | 4.80 | 5/9/2009 | 1/23/2009 |
| 2009 | \$273 | 7.60 | 5/11/2009 | 2/2/2009 |
| 2009 | \$122 | 3.40 | 5/10/2009 | 2/6/2009 |
| 2009 | \$115 | 3.20 | 5/12/2009 | 3/6/2009 |
| 2009 | \$97 | 2.70 | 5/13/2009 | 3/20/2009 |
| 2009 | \$769 | 21.40 | 5/1/2009 | 5/1/2009 |
| 2009 | \$830 | 23.10 | 5/15/2009 | 5/15/2009 |
| Totals: | \$4,811 | 140.5 | | |

Questioned costs: \$5,457 in labor and associated indirect charges based on the 13.45 percent file NICRA rate for the fiscal year ended September 30, 2009, are ineligible.

Effect: Because of the override of controls by management the Loya Jirga program and thus USAID was overcharged for costs incurred on behalf of the AGMC Canadian funded project.

Cause: Controls designed to validate time charged to projects (i.e. management review) were overridden by management due to budget concerns.

Recommendation: We recommend that the Foundation complete the following actions: 1) refund USAID the \$5,457 in labor costs; and 2) issue a memorandum to time approvers to ensure that costs associated with time worked by employees on a project are allocated based on the relative benefit received by each project.

Finding 2012-04: Allowable Costs: Supporting Documentation for Employee Labor Charges

Significant Deficiency and Non-Compliance

Criteria: OMB Circular A-122 requires that labor charges be supported by documented payrolls approved by a responsible official of the organization and that the distribution of salaries and wages be supported by personnel activity reports (e.g. timesheets). The reports must be signed by the individual employee or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee.

Condition: During review of time records for a sample of employees, thirteen timesheets were identified that were signed by neither the employee nor the supervisor. The thirteen timesheets correspond to \$18,954 in labor costs incurred for 780 hours worked. The table below summarizes the entries for which exceptions were noted:

| Fiscal Year | Amount | Hours | Employee ID | Timesheet Date |
|--------------------|-----------------|---------------|--------------------|-----------------------|
| 2004 | \$2,040 | 71.00 | 1662 | 1/2/2004 |
| 2004 | \$1,900 | 82.00 | 1662 | 12/19/2003 |
| 2004 | \$1,520 | 53.00 | 2475 | 1/16/2004 |
| 2005 | \$1,227 | 39.00 | 2475 | 1/14/2005 |
| 2006 | \$479 | 479.37 | 2475 | 6/30/2006 |
| 2006 | \$685 | 20.00 | 2475 | 7/14/2006 |
| 2006 | \$1,335 | 39.00 | 2475 | 7/28/2006 |
| 2004 | \$1,509 | 66.00 | 2584 | 10/10/2003 |
| 2004 | \$1,295 | 62.00 | 2584 | 10/24/2003 |
| 2004 | \$1,503 | 67.00 | 2584 | 11/7/2003 |
| 2004 | \$1,802 | 87.00 | 2584 | 11/21/2003 |
| 2004 | \$1,582 | 78.00 | 2584 | 12/5/2003 |
| 2004 | \$2,077 | 102.00 | 2584 | 12/19/2003 |
| Totals: | \$18,954 | 780.00 | | |

In addition, the financial records for employee 1662 (FY2006, 37.50 hours, \$1,768 dollars charged, timesheet dated 9/22/2006) did not agree to the supporting timesheet, which denoted 52 hours as having been worked. The result is an estimated under-allocation of charges to the project of \$683.

Questioned costs: \$20,924 in costs, inclusive of indirect costs, that were charged to the project is considered to be unsupported.

Effect: The Foundation received Federal funds greater than that to which it was entitled thus reducing the funds available for other program purposes. The frequency of the omission further brings into question the reliability of the control over time reporting and the corresponding allocations of personnel costs.

Cause: Failure of the employees and supervisors to certify and approve the specific timesheets were an administrative oversight.

Recommendation: We recommend that the Foundation provide training to supervisors and employees to emphasize the importance of timesheet certifications by both employees and supervisors.

(Continued)

We further recommend the Foundation review project documentation for the periods covered by the timesheets and validate that the time charged to the program was accurate. The supporting documentation should be forwarded to USAID and, if the amounts remain unsupported, the Foundation should refund the costs.

(Continued)

Finding 2012-05: Subrecipient Monitoring

Significant Deficiency

Criteria: Recipients of Federal funds are responsible for establishing and maintaining a system of internal control over all funds, property, and other assets per 22 CFR Part 226.21.

Condition: The Asia Foundation utilizes a risk-based approach to subrecipient monitoring as documented within the *Sub-Recipient Financial Monitoring and Audit Guide*. A sample of fifteen subrecipient risk assessments was requested. Thirteen of the fifteen risk assessments were not provided. One other approved risk assessment was provided; however, the assessment was incomplete as it left a series of questions unanswered.

Questioned costs: None

Effect: The Foundation may have utilized inadequate subrecipient monitoring procedures and exposed the program to greater risk of noncompliance than necessary.

Cause: Due to the approver and preparer of the risk assessment no longer being employed by TAF, the Foundation could not determine why an incomplete assessment was approved. The remaining thirteen risk assessment documents could not be located. Management is unsure why the documents could not be located.

Recommendation: We recommend that The Asia Foundation adopt an electronic record keeping procedure to reduce the risk of losing documentation supporting activities completed on Federally-funded projects.

(Continued)

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

There have been no prior audits, reviews, or assessments conducted that contained findings directly related to cooperative agreement number 306-A-00-03-00504-00. Thus, there are no such findings to report on herein.

APPENDIX A – Calculation of Interest Payable on Advances

| Month (A) | Expenditures (B) | PMS Draws In Month (C) | Cumulative Draws - Cumulative Expenditures (D) | Excess Cash (Column D less Next Month's XPDTRS) (E) | CMIA Daily Interest Rate (F) | Interest Payable (G) | Days Outstanding (H) |
|----------------------|-----------------------------|-----------------------------------|---|--|---|---------------------------------|-------------------------------------|
| Oct-03 | \$ 2,215,716.86 | | \$ (2,215,716.86) | \$ - | 0.0031% | \$ - | - |
| Nov-03 | \$ 361,470.35 | | \$ (2,577,187.21) | \$ - | 0.0031% | \$ - | - |
| Dec-03 | \$ 1,496,579.78 | | \$ (4,073,766.99) | \$ - | 0.0031% | \$ - | - |
| Jan-04 | \$ 585,816.44 | | \$ (4,659,583.43) | \$ - | 0.0031% | \$ - | - |
| Feb-04 | \$ 935,893.14 | | \$ (5,595,476.57) | \$ - | 0.0031% | \$ - | - |
| Mar-04 | \$ 2,591,967.82 | \$ 2,733,730.00 | \$ (5,453,714.39) | \$ - | 0.0031% | \$ - | - |
| Apr-04 | \$ 456,893.19 | \$ 1,750,000.00 | \$ (4,160,607.58) | \$ - | 0.0031% | \$ - | - |
| May-04 | \$ 5,136,558.25 | \$ 5,850,000.00 | \$ (3,447,165.83) | \$ - | 0.0031% | \$ - | - |
| Jun-04 | \$ 568,614.06 | \$ 1,641,623.00 | \$ (2,374,156.89) | \$ - | 0.0031% | \$ - | - |
| Jul-04 | \$ (541,961.85) | \$ 2,850,000.00 | \$ 1,017,804.96 | \$ - | 0.0031% | \$ - | - |
| Aug-04 | \$ 2,591,668.00 | \$ 4,550,000.00 | \$ 2,976,136.96 | \$ - | 0.0031% | \$ - | - |
| Sep-04 | \$ 12,332,604.20 | \$ 9,400,000.00 | \$ 43,532.76 | \$ - | 0.0031% | \$ - | - |
| Oct-04 | \$ 342,381.52 | \$ 4,900,000.00 | \$ 4,601,151.24 | \$ 4,303,818.16 | 0.0076% | \$ 9,773.97 | 30 |
| Nov-04 | \$ 297,333.08 | \$ 750,000.00 | \$ 5,053,818.16 | \$ 4,773,731.30 | 0.0076% | \$ 10,841.14 | 30 |
| Dec-04 | \$ 280,086.86 | \$ - | \$ 4,773,731.30 | \$ 4,481,763.06 | 0.0076% | \$ 10,178.08 | 30 |
| Jan-05 | \$ 291,968.24 | \$ - | \$ 4,481,763.06 | \$ 4,234,319.89 | 0.0076% | \$ 9,616.14 | 30 |
| Feb-05 | \$ 247,443.17 | \$ - | \$ 4,234,319.89 | \$ 4,034,042.99 | 0.0076% | \$ 9,161.31 | 30 |
| Mar-05 | \$ 200,276.90 | \$ - | \$ 4,034,042.99 | \$ 3,510,579.54 | 0.0076% | \$ 7,972.53 | 30 |
| Apr-05 | \$ 523,463.45 | \$ - | \$ 3,510,579.54 | \$ 1,870,831.09 | 0.0076% | \$ 4,248.66 | 30 |
| May-05 | \$ 1,639,748.45 | \$ 1,082,136.00 | \$ 2,952,967.09 | \$ 2,577,998.63 | 0.0076% | \$ 5,854.63 | 30 |
| Jun-05 | \$ 374,968.46 | \$ - | \$ 2,577,998.63 | \$ - | 0.0076% | \$ - | - |
| Jul-05 | \$ 5,379,299.70 | \$ 2,668,885.00 | \$ (132,416.07) | \$ - | 0.0076% | \$ - | - |
| Aug-05 | \$ 3,960,093.15 | \$ 3,402,216.00 | \$ (690,293.22) | \$ - | 0.0076% | \$ - | - |
| Sep-05 | \$ 7,351,627.93 | \$ 4,779,978.00 | \$ (3,261,943.15) | \$ - | 0.0076% | \$ - | - |
| Oct-05 | \$ 274,545.31 | \$ 2,526,554.00 | \$ (1,009,934.46) | \$ - | 0.0125% | \$ - | - |
| Nov-05 | \$ 701,267.07 | \$ 1,450,000.00 | \$ (261,201.53) | \$ - | 0.0125% | \$ - | - |
| Dec-05 | \$ 335,187.51 | \$ 450,000.00 | \$ (146,389.04) | \$ - | 0.0125% | \$ - | - |
| Jan-06 | \$ 1,918,935.07 | \$ 1,765,217.00 | \$ (300,107.11) | \$ - | 0.0125% | \$ - | - |

(Continued)

| | | | | | | | |
|--|---------------|-----------------|-----------------|-----------------|---------|-------------|------------------|
| Feb-06 | \$ 138,208.08 | \$ 800,000.00 | \$ 361,684.81 | \$ 150,880.89 | 0.0125% | \$ 567.16 | 30 |
| Mar-06 | \$ 210,803.92 | \$ 1,000,000.00 | \$ 1,150,880.89 | \$ 669,040.59 | 0.0125% | \$ 2,514.92 | 30 |
| Apr-06 | \$ 481,840.30 | \$ 400,000.00 | \$ 1,069,040.59 | \$ 780,829.60 | 0.0125% | \$ 2,935.14 | 30 |
| May-06 | \$ 288,210.99 | \$ 300,000.00 | \$ 1,080,829.60 | \$ 691,092.89 | 0.0125% | \$ 2,597.82 | 30 |
| Jun-06 | \$ 389,736.71 | \$ 588,210.00 | \$ 1,279,302.89 | \$ 1,053,042.25 | 0.0125% | \$ 3,958.39 | 30 |
| Jul-06 | \$ 226,260.64 | \$ - | \$ 1,053,042.25 | \$ 718,382.22 | 0.0125% | \$ 2,700.40 | 30 |
| Aug-06 | \$ 334,660.03 | \$ 600,000.00 | \$ 1,318,382.22 | \$ 874,017.57 | 0.0125% | \$ 3,285.43 | 30 |
| Sep-06 | \$ 444,364.65 | \$ 600,000.00 | \$ 1,474,017.57 | \$ 1,311,069.90 | 0.0125% | \$ 4,928.31 | 30 |
| Oct-06 | \$ 162,947.67 | \$ 200,000.00 | \$ 1,511,069.90 | \$ 1,318,333.00 | 0.0134% | \$ 5,295.74 | 30 |
| Nov-06 | \$ 192,736.90 | \$ 500,000.00 | \$ 1,818,333.00 | \$ 1,474,737.03 | 0.0134% | \$ 5,924.02 | 30 |
| Dec-06 | \$ 343,595.97 | \$ - | \$ 1,474,737.03 | \$ 1,159,029.96 | 0.0134% | \$ 4,655.82 | 30 |
| Jan-07 | \$ 315,707.07 | \$ - | \$ 1,159,029.96 | \$ 453,200.76 | 0.0134% | \$ 1,820.51 | 30 |
| Feb-07 | \$ 705,829.20 | \$ 400,000.00 | \$ 853,200.76 | \$ 465,639.66 | 0.0134% | \$ 1,870.47 | 30 |
| Mar-07 | \$ 387,561.10 | \$ 250,000.00 | \$ 715,639.66 | \$ 106,096.81 | 0.0134% | \$ 426.19 | 30 |
| Apr-07 | \$ 609,542.85 | \$ 30,000.00 | \$ 136,096.81 | \$ - | 0.0134% | \$ - | - |
| May-07 | \$ 493,690.05 | \$ 800,000.00 | \$ 442,406.76 | \$ 51,546.23 | 0.0134% | \$ 207.06 | 30 |
| Jun-07 | \$ 390,860.53 | \$ 100,000.00 | \$ 151,546.23 | \$ - | 0.0134% | \$ - | - |
| TOTAL ESTIMATED INTEREST PAYABLE: | | | | | | | \$111,333 |
| LESS: INTEREST THAT MAY BE RETAINED PER THE COOPERATIVE AGREEMENT (\$250 PER YEAR): | | | | | | | \$1,000 |
| NET INTEREST PAYABLE: | | | | | | | \$110,333 |

APPENDIX B - Views of Responsible Officials



The Asia Foundation

May 28, 2013

Mr. Charles Allen
Chief Executive Officer
Crowe Horwath LLP
1325 G Street N.W., Suite 500
Washington, D.C. 2005-3136

Re: The Asia Foundation's Management Response to Crowe Horwath, LLP Schedule of Findings

Dear Mr. Allen,

Please find below the management response to your findings and recommendations.

Finding 2012-01: Cash Management: Interest Owed to the Federal Government

We disagree with this finding. During the period 2003 to 2008, The Asia Foundation (TAF) had many grants and cooperative agreements from USAID covered by a single Letter of Credit (LOC). In earlier periods, we were not required to identify specific agreement spending when drawing down the LOC. In fact, USAID often would not add funds to the LOC when we received new awards explaining that we had sufficient credit available on the in place LOC.

The Foundation's practice, encouraged by feedback from USAID, was to draw down funds as needed for the entire complex of USAID grants and cooperative agreements. The approach of using a single letter of credit for all awards is specifically authorized in 22 CFR 226.22(c) which states: "Whenever possible, advances will be consolidated to cover anticipated cash needs for all awards made by USAID to the recipient."

To illustrate our approach on this issue, we have developed financial materials which prove that when all the USAID activity is analyzed together, collectively and cumulatively, The Asia Foundation did not overdraw in the aggregate under the LOC. This is shown in Table A below.

To develop this table, we summed all expenditures and draws under USAID LOC grants awarded to TAF based on SF272s. During 17 of these quarterly periods, we were underdrawn at quarter end. During 4 of these periods we were overdrawn at quarter end. Note, however, that the LOC draw rules allowed us to draw against the LOC for expenditures anticipated to be paid within the next 30 days. As a result, we do not believe there is any imputed interest due to the US government. We did not have excess balances of federal funds in hand.

Table A: SF 272 - AID LOC Aggregate Total Draws & Expenditures

| | |
|--------------------------------------|--|
| <i>Begin Cumulative Bal - SF 272</i> | -1,283,092.00 |
| Fiscal Year by Qtr | ALL Programs under AID LOC Aggregate (Under)/Over Drawn |
| 2003 | |
| FY 03 QTR 4 | -718,482.00 |
| 2004 | |
| FY04 QTR 1 | 173,806.36 |
| FY04 QTR 2 | 353,332.36 |
| FY04 QTR 3 | -465,701.64 |
| FY04 QTR 4 | 2,014,380.36 |
| 2005 | |
| FY 05 QTR 1 | 849,441.36 |
| FY 05 QTR 2 | -1,933,861.64 |
| FY 05 QTR 3 | -2,088,071.36 |
| FY 05 QTR 4 | -1,073,979.36 |
| 2006 | |
| FY 06 QTR 1 | -4,566,422.64 |
| FY 06 QTR 2 | -5,018,916.64 |
| FY 06 QTR 3 | -992,364.01 |
| FY 06 QTR 4 | -436,192.01 |
| 2007 | |
| FY 07 QTR 1 | -4,086,347.01 |
| FY 07 QTR 2 | -5,754,183.01 |
| FY 07 QTR 3 | -2,150,094.01 |
| FY 07 QTR 4 | -2,517,242.94 |
| 2008 | |
| FY 08 QTR 1 | -2,148,268.63 |
| FY 08 QTR 2 | -1,291,555.51 |
| FY 08 QTR 3 | -1,506,033.50 |
| FY 08 QTR 4 | -2,426,998.11 |

In addition to our disagreement with this finding, TAF takes issue with several aspects of the interest table prepared by Crowe Horwath. We have created a new, corrected version of this table, Table B below, that includes missing project expenditures and also revise the analysis of the days outstanding so that these are based on 30-day monthly periods. This corrects for two areas that were treated incorrectly in the Crowe table. Following this approach, the Crowe Horwath calculation should have been \$95,048.22.

Finally, TAF disagrees with the recommendation regarding payment of interest.

TABLE B: The Asia Foundation Interest Calculation including both project number for the FY 2008 (30435 & 31264) and correction for # days outstanding

| Month (A) | Expenditures (B) | PMS Draws in Month (C) | Cumulative Expenditures | Cumulative Expenditures | Cumulative Draws | Cumulative Draws - Cumulative Expenditures | Column G less Next Month's XPDTRS | CMIA Daily Interest Rate | Interest Payable | # of days outstanding in calculation |
|-----------|------------------|------------------------|-------------------------|-------------------------|------------------|--|-----------------------------------|--------------------------|------------------|--------------------------------------|
| Sep-03 | 2,156,677.20 | | \$ 2,156,677.20 | \$ 2,156,677.20 | \$ - | \$ (2,156,677.20) | \$ - | 0.0031% | \$ - | 0 |
| Oct-03 | \$ 6,792.18 | | \$ - | \$ - | \$ - | \$ (2,163,469.38) | \$ - | 0.0031% | \$ - | 0 |
| Nov-03 | \$ 361,470.35 | | \$ 2,524,939.73 | \$ 2,524,939.73 | \$ - | \$ (2,524,939.73) | \$ - | 0.0031% | \$ - | 0 |
| Dec-03 | \$ 1,566,941.27 | | \$ 4,091,881.00 | \$ 4,091,881.00 | \$ - | \$ (4,091,881.00) | \$ - | 0.0031% | \$ - | 0 |
| Jan-04 | \$ 585,816.44 | | \$ 4,677,697.44 | \$ 4,677,697.44 | \$ - | \$ (4,677,697.44) | \$ - | 0.0031% | \$ - | 0 |
| Feb-04 | \$ 935,893.14 | | \$ 5,613,590.58 | \$ 5,613,590.58 | \$ - | \$ (5,613,590.58) | \$ - | 0.0031% | \$ - | 0 |
| Mar-04 | \$ 2,615,650.42 | \$ 2,733,730.00 | \$ 8,229,241.00 | \$ 8,229,241.00 | \$ 2,733,730.00 | \$ (5,495,511.00) | \$ - | 0.0031% | \$ - | 0 |
| Apr-04 | \$ 456,893.19 | \$ 1,750,000.00 | \$ 8,686,134.19 | \$ 8,686,134.19 | \$ 4,483,730.00 | \$ (4,202,404.19) | \$ - | 0.0031% | \$ - | 0 |
| May-04 | \$ 5,136,558.25 | \$ 5,850,000.00 | \$ 13,822,692.44 | \$ 13,822,692.44 | \$ 10,333,730.00 | \$ (3,488,962.44) | \$ - | 0.0031% | \$ - | 0 |
| Jun-04 | \$ 620,269.56 | \$ 1,641,623.00 | \$ 14,442,962.00 | \$ 14,442,962.00 | \$ 11,975,353.00 | \$ (2,467,609.00) | \$ - | 0.0031% | \$ - | 0 |
| Jul-04 | \$ (541,961.85) | \$ 2,850,000.00 | \$ 13,901,000.15 | \$ 13,901,000.15 | \$ 14,825,353.00 | \$ 924,352.85 | \$ (1,667,315.15) | 0.0031% | \$ - | 0 |
| Aug-04 | \$ 2,591,668.00 | \$ 4,550,000.00 | \$ 16,492,668.15 | \$ 16,492,668.15 | \$ 19,375,353.00 | \$ 2,882,684.85 | \$ (9,395,754.55) | 0.0031% | \$ - | 0 |
| Sep-04 | \$ 12,278,439.40 | \$ 9,400,000.00 | \$ 28,771,107.55 | \$ 28,771,107.55 | \$ 28,775,353.00 | \$ 4,245.45 | \$ (338,136.07) | 0.0031% | \$ - | 0 |
| Oct-04 | \$ 342,381.52 | \$ 4,900,000.00 | \$ 29,113,489.07 | \$ 29,113,489.07 | \$ 33,675,353.00 | \$ 4,561,863.93 | \$ 4,264,530.85 | 0.0076% | \$ 2,259.77 | 7 |
| Nov-04 | \$ 297,333.08 | \$ 750,000.00 | \$ 29,410,822.15 | \$ 29,410,822.15 | \$ 34,425,353.00 | \$ 5,014,530.85 | \$ 4,734,443.99 | 0.0076% | \$ 10,751.92 | 30 |
| Dec-04 | \$ 280,086.86 | \$ - | \$ 29,690,909.01 | \$ 29,690,909.01 | \$ 34,425,353.00 | \$ 4,734,443.99 | \$ 4,442,475.75 | 0.0076% | \$ 10,088.86 | 30 |
| Jan-05 | \$ 291,968.24 | \$ - | \$ 29,982,877.25 | \$ 29,982,877.25 | \$ 34,425,353.00 | \$ 4,442,475.75 | \$ 4,195,032.58 | 0.0076% | \$ 9,526.92 | 30 |
| Feb-05 | \$ 247,443.17 | \$ - | \$ 30,230,320.42 | \$ 30,230,320.42 | \$ 34,425,353.00 | \$ 4,195,032.58 | \$ 3,996,459.00 | 0.0076% | \$ 9,075.96 | 30 |

| | | | | | | | | | | |
|--------|-----------------|-----------------|-------------------|------------------|------------------|-------------------|-------------------|----------|-------------|----|
| Mar-05 | \$ 198,573.58 | \$ - | \$ 3,996,459.00 | \$ 30,428,894.00 | \$ 34,425,353.00 | \$ 3,996,459.00 | \$ 3,472,995.55 | 0.00076% | \$ 7,887.17 | 30 |
| Apr-05 | \$ 523,463.45 | \$ - | \$ 3,472,995.55 | \$ 30,952,357.45 | \$ 34,425,353.00 | \$ 3,472,995.55 | \$ 1,833,247.10 | 0.00076% | \$ 4,163.30 | 30 |
| May-05 | \$ 1,639,748.45 | \$ 1,082,136.00 | \$ 2,915,383.10 | \$ 32,592,105.90 | \$ 35,507,489.00 | \$ 2,915,383.10 | \$ 2,540,414.64 | 0.00076% | \$ 1,346.17 | 7 |
| Jun-05 | \$ 374,968.46 | | \$ 2,540,414.64 | \$ 32,967,074.36 | \$ 35,507,489.00 | \$ 2,540,414.64 | \$ (2,838,885.06) | 0.00076% | \$ - | 0 |
| Jul-05 | \$ 5,379,299.70 | \$ 2,668,885.00 | \$ (170,000.06) | \$ 38,346,374.06 | \$ 38,176,374.00 | \$ (170,000.06) | \$ (4,130,093.21) | 0.00076% | \$ - | 0 |
| Aug-05 | \$ 3,960,093.15 | \$ 3,402,216.00 | \$ (727,877.21) | \$ 42,306,467.21 | \$ 41,578,590.00 | \$ (727,877.21) | \$ (8,079,505.14) | 0.00076% | \$ - | 0 |
| Sep-05 | \$ 7,351,627.93 | \$ 4,779,978.00 | \$ (3,299,527.14) | \$ 49,658,095.14 | \$ 46,358,568.00 | \$ (3,299,527.14) | \$ (3,574,072.45) | 0.00076% | \$ - | 0 |
| Oct-05 | \$ 274,545.31 | \$ 2,526,554.00 | \$ (1,047,518.45) | \$ 49,932,640.45 | \$ 48,885,122.00 | \$ (1,047,518.45) | \$ (1,748,785.52) | 0.0125% | \$ - | 0 |
| Nov-05 | \$ 701,267.07 | \$ 1,450,000.00 | \$ (298,785.52) | \$ 50,633,907.52 | \$ 50,335,122.00 | \$ (298,785.52) | \$ (637,105.00) | 0.0125% | \$ - | 0 |
| Dec-05 | \$ 338,319.48 | \$ 450,000.00 | \$ (187,105.00) | \$ 50,972,227.00 | \$ 50,785,122.00 | \$ (187,105.00) | \$ (2,106,040.07) | 0.0125% | \$ - | 0 |
| Jan-06 | \$ 1,918,935.07 | \$ 1,765,217.00 | \$ (340,823.07) | \$ 52,891,162.07 | \$ 52,550,339.00 | \$ (340,823.07) | \$ (479,031.15) | 0.0125% | \$ - | 0 |
| Feb-06 | \$ 138,208.08 | \$ 800,000.00 | \$ 320,968.85 | \$ 53,029,370.15 | \$ 53,350,339.00 | \$ 320,968.85 | \$ 116,428.00 | 0.0125% | \$ 102.12 | 7 |
| Mar-06 | \$ 204,540.85 | \$ 1,000,000.00 | \$ 1,116,428.00 | \$ 53,233,911.00 | \$ 54,350,339.00 | \$ 1,116,428.00 | \$ 634,587.70 | 0.0125% | \$ 2,385.42 | 30 |
| Apr-06 | \$ 481,840.30 | \$ 400,000.00 | \$ 1,034,587.70 | \$ 53,715,751.30 | \$ 54,750,339.00 | \$ 1,034,587.70 | \$ 746,376.71 | 0.0125% | \$ 2,805.63 | 30 |
| May-06 | \$ 288,210.99 | \$ 300,000.00 | \$ 1,046,376.71 | \$ 54,003,962.29 | \$ 55,050,339.00 | \$ 1,046,376.71 | \$ 672,579.00 | 0.0125% | \$ 2,528.22 | 30 |
| Jun-06 | \$ 373,797.71 | \$ 588,210.00 | \$ 1,260,789.00 | \$ 54,377,760.00 | \$ 55,638,549.00 | \$ 1,260,789.00 | \$ 1,034,528.36 | 0.0125% | \$ 3,888.79 | 30 |
| Jul-06 | \$ 226,260.64 | | \$ 1,034,528.36 | \$ 54,604,020.64 | \$ 55,638,549.00 | \$ 1,034,528.36 | \$ 699,868.33 | 0.0125% | \$ 2,630.81 | 30 |
| Aug-06 | \$ 334,660.03 | \$ 600,000.00 | \$ 1,299,868.33 | \$ 54,938,680.67 | \$ 56,238,549.00 | \$ 1,299,868.33 | \$ 819,235.22 | 0.0125% | \$ 3,079.51 | 30 |
| Sep-06 | \$ 480,633.11 | \$ 600,000.00 | \$ 1,419,235.22 | \$ 55,419,313.78 | \$ 56,838,549.00 | \$ 1,419,235.22 | \$ 1,256,287.55 | 0.0125% | \$ 4,722.38 | 30 |
| Oct-06 | \$ 162,947.67 | \$ 200,000.00 | \$ 1,456,287.55 | \$ 55,582,261.45 | \$ 57,038,549.00 | \$ 1,456,287.55 | \$ 1,263,550.65 | 0.0134% | \$ 5,075.68 | 30 |
| Nov-06 | \$ 192,736.90 | \$ 500,000.00 | \$ 1,763,550.65 | \$ 55,774,998.35 | \$ 57,538,549.00 | \$ 1,763,550.65 | \$ 1,466,338.00 | 0.0134% | \$ 5,890.28 | 30 |
| Dec-06 | \$ 297,212.65 | | \$ 1,466,338.00 | \$ 56,072,211.00 | \$ 57,538,549.00 | \$ 1,466,338.00 | \$ 1,150,630.93 | 0.0134% | \$ 4,622.08 | 30 |

[illegible]

Corrective Action:

None needed. TAF currently continues to use the reimbursement method of payment. TAF submits weekly draws based on each grant award's actual expenditures.

Finding 2012-02: Cash Management: Payment on the Advance Basis**Management Response:**

We agree that we should maintain an archive of written policies and procedures and will implement this practice.

We agree that management should review payment requests prior to submission. This is, in fact, our practice now and was the practice during the period of this grant.

We do not obtain advance payments so this recommendation does not apply to us.

Corrective Action:

TAF going forward will add to its document retention policy to archive written policies and procedures electronically. This policy will be completed by FYE 2013.

TAF currently reviews draw requests before each draw is made.

Finding 2012-03: Allowable Costs – Payroll Cost Allocation**Management Response:**

We concur that there was ambiguity with regard to the funding sources for the effort in question. However, we do not agree with the finding that this \$5,457 is an ineligible cost.

The time charging issue relates to the work on the Afghan Government Media Centre (AGMC) project, a five party consortium funded project, for which the employee under question was the Program Manager.

In early 2007, USAID indicated to TAF that it should include AGMC as a component into our proposal for cost extension to the subject cooperating agreement. The objective of this activity was to assist President Karzai's palace in establishing a proper media center: to furnish and equip the premises (including dedicated internet connectivity); to recruit and train requisite staff (including the presidential spokesperson); and to pay for the day-to-day operational costs and human resources working for the AGMC.

At a later stage, given the sensitivity of the project, other donors in cooperation with and in support of this USAID funded effort, expressed their interest in partially funding this activity. Some of the donors, i.e. the US Embassy and NATO, covered expenses for certain cost categories while others, i.e. the Canadian Embassy and the British Embassy, agreed to cover a percentage of cost for all line items. However, given that the USAID project had already covered TAF level of effort; other donor funds were applied to program expenses. This arrangement was approved by USAID at the time.

Accordingly, TAF had five different agreements and project numbers with different donors for the work related to the Afghan Government Media Center (AGMC). These were;

1. Project 30435/31264: USAID
2. Project 31296: British Embassy, Kabul
3. Project 31313: DFAIT/Canada
4. Project 31382: US Embassy, Kabul
5. Project 31400: NATO

USAID was the first donor to fund the AGMC project through the TAF cooperative agreement and the approved budget covered requisite labor costs for this activity. Given that the AGMC was a start-up initiative, it required significant direct labor from a few key personnel, including the Program Manager. The Project Manager was budgeted for 170 days during a 17-month period under the USAID funded project. The Program Manager was new to TAF and was not yet familiar with the time charging system. As a result, the Program Manager charged his time to the wrong project code. When this error was discovered, it was corrected through a Journal Entry.

Under normal circumstances, there would have been a single consortium fund pool assigned one project number by TAF, in which case the issue of shifting a time charge from one project to another would not have arisen. However, given different funding periods by different donors (USAID funding remained from the very beginning till the end); separate project numbers were assigned for individual donors. Hence, time adjustments from one project number to another (i.e. from Canada funds to USAID) appear as a shifting of labor costs from one project to another. In reality, these adjustments represent the same work done for the AGMC project and all donors including USAID were in agreement that USAID would cover the majority of the labor costs.

There were five funders for one single project. USAID was funding, per our agreement with the AOR, all the labor for this project and as a result this \$5,457 had to be adjusted to the USAID award. We believe this is an eligible cost under the grant.

Corrective Action:

None needed. The Asia Foundation's senior management does send out periodic reminders to staff regarding the importance of accurate time and effort allocations to projects based on actual time worked. Supervisors are required to ensure that the time recorded accurately reflects staff time worked on the various activities related to projects and indirect activities.

Finding 2012-04: Allowable Costs: Supporting Documentation for Employee Labor Charges

Management Response:

We do not agree with this finding. Due to the passage of time, we could not find the signed timesheets, but our written policy requires that the employee and supervisor sign all timesheets. Prior to FY 11, TAF's process to manage US payroll staff's time sheet submissions from field offices was to first have field offices e-mail an excel version of the timesheet to the Payroll Accountant in San Francisco and, subsequently, send the hard copies (signed by both employee and supervisor) in the weekly pouch to San Francisco. We believe that some of the time sheets were either misfiled or misplaced during the archiving process for the period in question.

We believe all of these charges are allowable and accurate based on interviews with the affected staff, most of whom still work for TAF.

Corrective Action:

None needed. The Foundation does provide written guidance and reminders regarding the importance of accurate time reporting to both employees and supervisors.

Finding 2012-05: Subrecipient Monitoring


Management Response:

We concur. The information had been placed in the archives. However, TAF was unable to locate the files as they were possibly misfiled, destroyed, or misplaced.

Corrective Action:

We are developing an electronic archival system for this sub-recipient monitoring documentation. This system will be realized as part of our OneTAF implementation. We expect to have complete electronic records of all subrecipient documentation in our SharePoint database in the cloud. The expected completion date for this is September 2014.

Sincerely,

 on behalf of Ken Krug

Mr. Kenneth Krug
Chief Financial Officer, The Asia Foundation

Appendix C. Auditor's Rebuttal

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

May 29, 2013

Crowe Horwath LLP, in consideration of the views presented by the management of The Asia Foundation ("the Foundation") presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual matters and provide context, where appropriate, to assist users of the report in their evaluation of the findings and recommendations included in this report. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response.

Finding 2012-01

Crowe Horwath disagrees with the auditee's conclusion that there was not an excess cash balance resulting in interest being payable to the U.S. Government. Title 22, Part 226.22(b)(2) includes the following language indicating that the funds drawn down should align with immediate cash needs of the project: the regulation does not make reference to the recipient's full catalog of projects funded on the advance basis:

Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs.

We concur that the regulation goes on to indicate that the total amount of funds requested by the recipient should encompass all awards of the organization; however, the amount advanced is to be managed and determined on a per project basis. In consideration of the regulation excerpt presented above and the comparison of actual expenditures incorporated within the interest calculation table appearing in Appendix A to funds drawn down for the award under audit, the finding stands and we recommend that the Foundation remit \$110,333 in interest to the U.S. Government.

Finding 2012-03

Crowe Horwath disagrees with management's conclusion that the charges are eligible and that USAID was intended to fund all of the labor for the project. The budget schedule supporting the agreement executed by and between the Canadian Department of Foreign Affairs and International Trade (DFAIT) and The Asia Foundation as provided to Crowe Horwath by the Foundation on April 10, 2013, incorporates payroll and labor charges. The costs incurred for work on the portion of the project funded by DFAIT should, per the provisions of OMB Circular A-122, be allocated to DFAIT. An exception does not appear within the cost principles for OMB Circular A-122 presenting insufficient budgeted funds as support for reallocation of costs borne by another entity to the U.S. Government's component of a project. The finding, inclusive of questioned costs, stands.

Finding 2012-04

Crowe Horwath disagrees with management's conclusion that the charges are allowable. An inability to locate documentation required to support personnel charges violates the allowability provisions of OMB Circular A-122. The retention of records – including "Financial records, supporting documents, statistical records, and all other records pertinent to an award" – in accordance with the provisions of 22 CFR Part 226.53 is the responsibility of the auditee. The finding, inclusive of questioned costs, stands.

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