

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR Financial Audit 13-11

Department of State's Afghanistan Media Project:
Audit of Incurred Costs by HUDA Development
Organization Afghanistan



JULY
2013



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 26, 2013

The Honorable John F. Kerry
Secretary of State

The Honorable James B. Cunningham
U.S. Ambassador to Afghanistan

This letter transmits the results of our audit of costs incurred by HUDA Development Organization Afghanistan (HUDA) for Department of State (State) grants¹ in support of the Afghanistan Media Project to build five Afghan university media centers. The audit covered the period July 15, 2010, through December 31, 2012, and was performed by Mayer Hoffman McCann P.C. It covered \$7,402,631 in expenditures.

The specific objectives of the Afghanistan Media Project included providing universities with modern facilities and equipment, enhancing the students' ability to develop and broadcast information products, and enhancing faculty and students' ability to use modern media technologies. The grants to HUDA supporting the project had the intended goals of promoting journalism and building the capacity of both faculty and students by constructing media centers in five universities in Afghanistan.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of HUDA's Fund Accountability Statement;²
- determine and report on whether HUDA has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in HUDA's internal control over financial reporting; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

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

Mayer Hoffman McCann issued a qualified opinion on the fairness of the presentation of the Fund Accountability Statement based upon the identification of \$2,405,102 of questioned costs, which represents a material misstatement of the statement. Mayer Hoffman McCann also identified six findings from prior audits or assessments where adequate corrective action had not been taken. In addition, Mayer Hoffman McCann reported 15 internal control deficiencies, and 6 instances of noncompliance, which prompted the auditors to

¹ State grants S-AF200-10-GR-146 (\$2,674,721), S-AF200-10-GR-147 (\$2,634,494) and S-AF200-10-GR-245 (\$8,374,239) funded the construction of media centers at Afghan universities.

² 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.

question a total of \$2,405,102 in costs. The \$2,405,102 in questioned costs included \$173,469 in ineligible costs³ and \$2,231,633 in unsupported costs.⁴ See table 1 below.

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Personnel	\$373,938	\$56,483	\$317,455
Travel	\$5,747		\$5,747
Equipment	\$726,494	\$77,685	\$648,809
Construction work and Supplies	\$1,222,105	\$35,309	\$1,186,796
Indirect Costs	\$76,818	\$3,992	\$72,826
Totals	\$2,405,102	\$173,469	\$2,231,633

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

1. Determine the allowability of and recover, as appropriate, \$2,405,102 in questioned costs (\$173,469 ineligible and \$2,231,633 unsupported) identified in the report.
2. Advise HUDA to address the 15 internal control findings identified in the report.
3. Advise HUDA to address the six 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

(F011)

³ Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for exclusion from the Fund Accountability Statement and review by State to make a final determination regarding allowability.

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

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Background

The Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred of Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245, (Awards) awarded by the United States Department of State (State Department) to HUDA Development Organization for the period July 15, 2010 through December 31, 2012.

HUDA Development Organization Afghanistan (HUDA) is a non-governmental, non-political and nonprofit organization established on October 15, 2009. HUDA aims to help developmental organizations create genuine and consistent developmental practices in the field and, through that, the kinds of organizations and leadership that make these practices a sustainable reality.

The purpose of these Awards was to support the Afghanistan Media Project (Project). The outcome of the Awards was to build media centers in five universities throughout Afghanistan with the following objectives:

- Provide the universities with modern training facilities and equipment to develop and distribute print, radio and television materials;
- Enhance students' abilities to broadcast self-generated and community information products; and
- Enhance faculty and students' capabilities in the use of modern media production technologies.

By jointly developing the skills of faculty and students in these three mediums, the Project was to promote journalism and further build the capacity of the next generation of Afghan journalists. It was to provide the journalism departments of the universities with the ability to do print, radio and television production in both Dari and Pashto, and allow future journalists to conduct radio and television talk shows with local leaders on key issues. However, program performance was not part of the scope of this audit.

The initial Awards and subsequent amendments were as follows:

<u>Award Number</u>	<u>Initial Award</u>	<u>Number of Amendments</u>	<u>Total Award</u>
S-AF200-10-GR-146	\$ 1,703,750	4	\$ 2,674,721
S-AF200-10-GR-147	1,572,580	4	2,634,494
S-AF200-10-GR-245	<u>8,374,239</u>	2	<u>8,374,239</u>
Total awards	<u>\$11,650,569</u>		<u>\$13,683,454</u>

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Objectives, Scope and Methodology

Objectives

The objectives of the audit include the following:

- *The Fund Accountability Statement (FAS)* – Express an opinion on whether the FAS 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 Assistance Awards and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of HUDA's internal controls related to the Assistance Awards; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether HUDA complied, in all material respects, with the Assistance Awards' 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.
- *Corrective Action on Prior Audit Recommendations* – Determine and report on whether HUDA has taken adequate corrective action on prior external audit report recommendations or other external assessment recommendations.

Scope

The scope of this audit included all costs, including indirect costs, incurred during the period July 15, 2010 through December 31, 2012 under Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245 from the State Department.

Methodology

In order to accomplish the objectives of this audit, we designed our audit procedures to include the following:

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Entrance Conference

An entrance conference was held via conference call on December 18, 2012 with representatives of HUDA, SIGAR and the State Department in attendance.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of HUDA;
- Reviewed Awards to HUDA;
- Reviewed regulations specific to the State Department and the Awards;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques.

Internal Control Related to the FAS

We reviewed HUDA's internal controls related to the FAS. This review was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with the Assistance Awards' Requirements and Applicable Laws and Regulations

We reviewed the Awards and amendments and documented all compliance requirements that could have a direct and material effect on the FAS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

Corrective Action on Prior Audit Recommendations

We requested all prior audit reports and recommendations provided in order determine the impact on our audit, as well as to evaluate the adequacy of the corrective actions implemented. See the Review of Prior Findings and Recommendations subsection of this Summary for a status of applicable prior findings.

Sampling

Our sampling techniques included using the detailed accounting records, and based upon the risk assessed, we performed data mining to assess individual expenditure accounts and transactions that are considered to be high or medium risk for inclusion in our test of transactions. If the population of a given cost category tended to be large in the number of transactions and more homogeneous in nature,

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we considered selecting a statistical sample of the costs. If a statistical sample was selected, the sample size was based upon a 95% confidence level with 5% maximum tolerable error rate. All other cost categories and/or accounts for which it was not be appropriate to select a statistical sample were selected on a judgmental basis.

Fund Accountability Statement

In reviewing the FAS, we performed the following:

- Reconciled the costs on the FAS to the Awards and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Awards and reasonable.

Exit Conference

An exit conference was held on April 3, 2013. Attendees included HUDA, SIGAR and the State Department. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by HUDA under the Awards from the State Department identified the following matters:

Auditor's Opinion on FAS

We issued a qualified opinion on the fairness of the presentation of the FAS. This opinion was based upon the identification of certain ineligible or questioned costs, which represents a material misstatement of the FAS. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with the State Department.

Questioned Costs

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Awards or applicable laws and regulations, including Office of Management and Budget (OMB) Circular A-122. Unsupported

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costs are those costs for which no or inadequate supporting documentation was provided for our review. A summary of questioned costs is as follows:

Ineligible Costs

The following represents the ineligible costs identified during the audit:

<u>Finding Number</u>	<u>Description</u>	<u>Ineligible Costs</u>
2013-8	Costs incurred prior to period of performance	\$ 1,500
2013-15	Costs exceed the budget	<u>171,969</u>
Total		<u>\$173,469</u>

Unsupported Costs

The following represents the unsupported costs identified during the audit:

<u>Finding Number</u>	<u>Description</u>	<u>Unsupported Costs</u>
2013-1	Projects not competitively bid	\$1,214,380
2013-2	Costs not supported or amount per the invoice was less than the cost claimed	77,782
2013-3	Cash payments made to other than the intended recipient, extra work not competitively bid, and the vendor check was endorsed by the HUDA Project Manager	83,050
2013-4	Expenses claimed not recorded in accounting records	61,847
2013-5	Lack of sufficient documentation to support expense	415,909
2013-6	Salaries of core national staff paid in cash and timesheets not approved by supervisor	136,665
2013-7	Contract with quality assurance/quality control firm was not competitively bid, costs were greater than costs on similar projects, payment patterns were irregular and payments were made in advance of when services were received	239,000
2013-8	Lack or prior approval from the State Department	<u>3,000</u>
Total		<u>\$2,231,633</u>

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Total questioned costs as a result of our audit are as follows:

Ineligible costs	\$ 173,469
Unsupported costs	<u>2,231,633</u>
Total questioned costs	<u>\$2,405,102</u>

Internal Control Findings

Internal control findings are classified into three categories, deficiency, significant deficiency, and material weakness. 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 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. 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 FAS will not be prevented, or detected and corrected on a timely basis. A summary of the internal control findings noted as a result of the audit are as follows:

Material Weakness

The following material weaknesses were reported:

Finding Number	Internal Control Finding – Material Weakness	Auditee's Concurrence
2013-1	HUDA did not consistently bid projects on a competitive basis and failed to retain various documentation associated with the procurement. This resulted in total questioned costs of \$1,214,380.	Disagree
2013-3	During our testing of payments to vendors for construction work and supplies, we noted the following questionable payments: <ul style="list-style-type: none">• Payment in the amount of \$3,850 was made to a quality assurance/quality control firm for consultation services under Award S-AF200-10-GR-146. The check was subsequently canceled and the payment purported to be made in cash. However, the signature of the	Disagree

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Finding Number	Internal Control Finding – Material Weakness	Auditee's Concurrence
	<p>acknowledgement of receipt was different from the owner's signature in other related documentation we reviewed. It appears that the payment was made to another individual.</p> <ul style="list-style-type: none">• Payment in the amount of \$79,200 was approved by the HUDA Project Manager to a vendor for the provision of labor for extra construction work under Award S-AF200-10-GR-146. A competitive bidding process was not used. Additionally, the check to the vendor was signed, approved and cashed by the HUDA Project Manager instead of the vendor, and the HUDA Project Manager allegedly paid the vendor in cash. Although an acknowledgement of receipt of the cash was signed, we are unable to determine whether the individual that signed the form is the actual vendor as no other documentation bearing the vendor's signature was available for review. <p>Total questioned costs are \$83,050.</p>	
2013-13	HUDA made payments in cash totaling \$626,922 for all three Awards.	Disagree

Significant Deficiency

The following significant deficiencies were reported:

Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-2	Costs claimed under equipment, construction work and supplies, and indirect costs in the total amount of \$77,782 were either not supported or the amount per the invoice was less than the cost claimed.	Agree
2013-4	Two expenses under Award S-AF200-10-GR-245 in the amounts of \$56,100 and \$5,747 charged to construction work and supplies and travel, respectively, were not	Disagree

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Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
	recorded in HUDA's accounting records. Total questioned costs are \$61,847.	
2013-5	For construction work and supplies and indirect costs tested, HUDA was unable to provide sufficient supporting documentation, i.e. invoices/bills, agreements, acknowledgement of receipt of payment, and evidence of services received for 18 sampled transactions tested. This resulted in questioned costs of \$415,909.	Disagree
2013-6	Salaries of all core national staff had been paid in cash throughout the audit period. Additionally, the monthly timesheets of all of the sampled employees supporting the payroll sheets were not approved by the immediate supervisor. These conditions occurred in all 10 of the months we tested. Therefore, we questioned all personnel costs and associated indirect costs incurred by core national staff for the entire 28-month in the amount of \$136,665.	Disagree
2013-7	HUDA charged \$239,000 for costs paid to a quality assurance/quality control firm that are questionable due to the following: <ul style="list-style-type: none"> • No documentation was provided to support whether this contract was competitively bid; • Costs was comparatively higher than other similar services performed on similar projects; • Payment patterns appeared irregular; and • Payments were made in advance instead of after services were rendered. 	Disagree
2013-8	Audit costs in the amount of \$1,500 for a period prior to the period of performance were charged to Award S-AF200-10-GR-146. These costs were considered ineligible. Additionally, audit costs in the amount of \$3,000 charged to Award S-AF200-10-146 did not have prior approval from the State Department. These costs were considered unsupported.	Disagree

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Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-9	<p>During testing of HUDA's internal controls surrounding its cash disbursement cycle, we noted the following:</p> <ul style="list-style-type: none">• Vouchers are not numbered or indexed;• Hard copies of supporting payment vouchers were prepared after the expense entries were posted in the general ledger;• Inconsistency in the posting of payment vouchers as multiple payments for different invoices were lumped into one single general ledger posting entry and also multiple general ledger posting entries were lumped into one payment voucher;• Vouchers were not approved and/or authorized by the designated authorized personnel until after the payments were made; and• An audit trail was not documented as to the allocation of costs between the different awards.	Disagree
2013-10	<p>During our testing of Award S-AF200-10-GR-245, we noted that a subcontract was awarded by HUDA to a vendor for the construction and procurement of media equipment for four universities (Kandahar University, Nangarhar University, Balkh University and Khost University) for printing, radio and TV studios with a total contract value of \$3,224,045. Subsequent to award, the scope of the project was reduced by removing Khost University. Due to delays in obtaining a signed Memorandum of Understanding (MOU) and revision to the work plan (removing Khost University), the construction work could not be started as scheduled and the project was terminated. Advance payments in the amount of \$111,910 were made for the descoped project. Additionally, \$162,345 of costs incurred related to technical designing, soil testing and mobilization for Khost University were incurred prior to the signing of the MOU. These amounts were previously questioned as part of Finding 2013-1.</p>	Disagree
2013-11	<p>Personnel files of employees were missing documentation related to recruitment, evaluation of performance and tracking of employee leave.</p>	Disagree

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Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-12	HUDA has a policy to deduct 10% of the salary of a newly-hired employee during their probationary period. During our testing of employment practices, we noted that no salary had been withheld during the probationary period for newly-hired employees.	Agree
2013-14	During our review of internal controls, we noted that the same individual was responsible for making cash payments was recording the transactions in the accounting system. In addition, Project Manager had the responsibility of hiring subcontractors, monitoring their work, submitting progress and financial reports and approving all the payments.	Disagree
2013-15	The reported costs for Awards S-AF200-10-GR-146 and S-AF200-10-GR-147 exceeded the budget by \$55,629 and \$116,340, respectively. No transfer was made or funds requested from other cost categories to offset the cost overruns. Total ineligible costs were \$171,969.	Agree

The complete management response from HUDA to each of the internal control findings can be found in the Findings and Responses section of this report.

Deficiencies

No deficiencies were reported.

Compliance Findings

As part of obtaining reasonable assurance about whether the FAS is free from material misstatement, we performed tests of its compliance with certain provisions of the Awards and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of FAS. The results of our tests disclosed the following compliance findings.

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2013-1	HUDA did not consistently bid projects on a competitive basis and failed to retain various documentation associated with the procurement. This resulted in total questioned costs of \$1,214,380.	Disagree
2013-6	Salaries of all core national staff had been paid in cash throughout the audit period. Additionally, the monthly timesheets of all of the sampled employees supporting the payroll sheets were not approved by the immediate supervisor. These conditions occurred in all 10 of the months we tested. Therefore, we questioned all personnel costs and associated indirect costs incurred by core national staff for the entire 28-month in the amount of \$136,665.	Disagree
2013-7	HUDA charged \$239,000 for costs paid to a quality assurance/quality control firm that are questionable due to the following: <ul style="list-style-type: none">• No documentation was provided to support whether this contract was competitively bid;• Costs was comparatively higher than other similar services performed on similar projects;• Payment patterns appeared irregular; and• Payments were made in advance instead of after services were rendered.	Disagree
2013-8	Audit costs in the amount of \$1,500 for a period prior to the period of performance were charged to Award S-AF200-10-GR-146. These costs were considered ineligible. Additionally, audit costs in the amount of \$3,000 charged to Award S-AF200-10-146 did not have prior approval from the State Department. These costs were considered unsupported.	Disagree
2013-10	During our testing of Award S-AF200-10-GR-245, we noted that a subcontract was awarded by HUDA to a vendor for the construction and procurement of media equipment for four universities (Kandahar University, Nangarhar University, Balkh University and Khost University) for	Disagree

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Finding Number	Compliance Finding	Auditee's Concurrence
	printing, radio and TV studios with a total contract value of \$3,224,045. Subsequent to award, the scope of the project was reduced by removing Khost University. Due to delays in obtaining a signed MOU and revision to the work plan (removing Khost University), the construction work could not be started as scheduled and the project was terminated. Advance payments in the amount of \$111,910 were made for the descoped project. Additionally, \$162,345 of costs incurred related to technical designing, soil testing and mobilization for Khost University were incurred prior to the signing of the MOU. These amounts were previously questioned as part of Finding 2013-1.	
2013-15	The reported costs for Awards S-AF200-10-GR-146 and S-AF200-10-GR-147 exceeded the budget by \$55,629 and \$116,340, respectively. No transfer was made or funds requested from other cost categories to offset the cost overruns. Total ineligible costs were \$171,969.	Agree

Summary of HUDA's Responses to Findings

The following represents a summary of the responses provided by HUDA to the findings identified in this report. The verbatim management responses received can be found in Appendix A to this report.

- Finding 2013-1: HUDA disagrees with the finding and recommendation. It indicated that the standard competitive process was followed based upon solicitations from identified and pre-qualified vendors both through submitted bids or quotations. Copies of the competitive process documentation were provided.
- Finding 2013-2: HUDA agrees that the invoices and supporting documentation were not provided during the course of the audit. It has subsequently located the documentation and prepared the reconciliation.
- Finding 2013-3: HUDA disagrees with the finding and recommendation. It indicates that payments were only made to authorized vendors.

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- Finding 2013-4: HUDA disagrees with the finding and recommendation. It indicated that in some instances, the sampled expenses were partial payments, and that final payments were made and recorded. HUDA also states that the costs were allowable and in accordance with the approved U.S. Embassy budget categories.
- Finding 2013-5: HUDA disagrees with the finding and recommendation. It indicated that all cost questioned were approved by the U.S. Embassy Grant Officer and were, therefore, deemed to be reasonable.
- Finding 2013-6: HUDA disagrees with the finding and recommendation. It indicated that the Human Resources Officer prepares monthly salary sheets based upon employee daily attendance sheets. All monthly salary sheets for each employee are verified and attested to by the Grant and Finance Manager, and subsequently approved by the Program Manager.
- Finding 2013-7: HUDA disagrees with the finding and recommendation. It indicated that it had sourced locally through the Afghan Builders Association (ABA) to locate a competent firm in-country with expertise and experience, and there was only one firm referred. HUDA further states that this firm was approved by the U.S. Embassy Grant Officer.
- Finding 2013-8: HUDA disagrees with the finding and recommendation. It indicated that the Federal Assistance Awards are not subject to OMB Circular A-122.
- Finding 2013-9: HUDA disagrees with the finding and recommendation. It indicated that its ability to properly manage a Federal award has been proven by demonstrating due diligence and financial responsibility through consistent financial reporting to the U.S. Embassy.
- Finding 2013-10: HUDA disagrees with the finding and recommendation. It indicated that obtaining a signed MOU was the responsibility of the Afghan Government Ministry of Higher Education and the U.S. Embassy, and not a responsibility of HUDA's. It also indicated that there were no costs incurred prior to the MOU being signed.
- Finding 2013-11: HUDA disagrees with the finding and recommendation. It indicated that all personnel documents were maintained. HUDA also indicated that all staff were properly hired, were qualified and had demonstrated proven performance throughout the project.
- Finding 2013-12: HUDA agrees with the finding and recommendation. It indicated that the finance manual has been revised, and the withholding salary policy was removed.
- Finding 2013-13: HUDA disagrees with the finding and recommendation. It indicated that all payments made in cash were properly documented and were made to the contracted vendors for approved goods and services.

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- Finding 2013-14: HUDA disagrees with the finding and recommendation. HUDA indicated it has appropriate division of labor and duties for all personnel in all the three awards. As a Non-Governmental Organization (NGO), it stated it has maintained a cost-effective and best-value approach in utilizing professional personnel with broad experience and multi-task capabilities.
- Finding 2013-15: HUDA agrees with the finding and recommendation. It indicated that the budget overrun was a result of delays due to weather and security challenges, as well as price increases which affected the construction costs in Kabul. Additionally, increases in personnel costs were due to extended completion periods, which was approved by the U.S. Embassy Grant Officer.

Review of Prior Findings and Recommendations

We reviewed the corrective actions taken to address findings and recommendations from previous engagements that could have a material effect on the FAS. There was one prior engagement with findings and recommendations that were included in the scope of our audit. Of the 8 findings noted, adequate corrective action has been implemented on 1 of the findings, 6 of the findings remain outstanding and have been repeated in this report, and 1 of the findings was a best practice item that was beyond our scope and thus not repeated. A summary of these prior findings and recommendations is as follows:

Annual Financial Audit of HUDA for the years ended December 31, 2009, 2010, and 2011

1. Pre-printed serial numbered forms for vouchers were not used.

Recommendation

The use of pre-printed serial numbered forms for vouchers was recommended to avoid the duplication or intentional removal/concealment of records and documents.

Status of Corrective Action

Pre-printed serial numbered vouchers have not been implemented. This finding has not been resolved. See Finding 2013-9 in the Findings and Responses section of this report.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

SUMMARY

2. Double entry Accounting Software was not used for financial reporting.

Status of Corrective Action

HUDA implemented QuickBooks as its accounting software. The corrective action has been adequately implemented and this finding is resolved.

3. There was a lack of an independent internal audit function.

Recommendation

An internal audit function should be established that is independent of those who are involved in the maintenance of accounting records and preparation of the financial statements.

Status of Corrective Action

An internal audit function has not yet been established. Since this recommendation involves the organizational structure of HUDA, which is outside the scope of this audit, it has not been repeated as a recommendation. Additionally, establishment of an internal audit function is a best practice and not a requirement of the Awards.

4. There was a general lack of quotations, bid analysis and purchase orders.

Recommendation

HUDA needs to maintain procurement cycle documentation in accordance with its policies and procedures to ensure sound internal control over procurement functions.

Status of Corrective Action

During our audit, we noted that HUDA did not follow its procurement policies and procedures. This finding has not been resolved. See Finding 2013-1 in the Findings and Responses section of this report.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

SUMMARY

5. A significant number of payments were made in cash.

Recommendation

HUDA should ensure that banking channels are used to make payments as much as possible.

Status of Corrective Action

During our testing, we noted that a significant number of payments were still being made in cash. This finding has not been resolved. See Finding 2013-13 in the Findings and Responses section of this report.

6. Personal files were not properly maintained.

Recommendation

A personnel file should be maintained for each employee and updated regularly to include all of the essential information and documents as mentioned in the HUDA Policies and Procedures Manual.

Status of Corrective Action

Personnel files are being maintained, but they do not include all of the documents required by the HDO Policies and Procedures Manual, such as the job announcement, written test paper, short list form, interview panel's recommendations, appointment letter, educational/experience certificates, performance evaluations, promotion letters and leave records. This finding has not been resolved. See Finding 2013-11 in the Findings and Responses section of this report.

7. Salaries were paid in cash.

Recommendation

The payment of employee's salaries should be made through banking channels.

Status of Corrective Action

Salaries for the local core national staff were paid in cash throughout the audit period. This finding has not been resolved. See Finding 2013-6 in the Findings and Responses section of this report.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

SUMMARY

8. Lack of segregation of duties.

Recommendation

Staff duties should be segregated such that every staff member should be responsible for one part of the organizational function only, and the work of one staff member may be reviewed by another staff member.

Status of Corrective Action

We noted a continual lack of segregation of duties. The Project Manager had numerous responsibilities and concentrated authority. This finding has not been resolved. See Finding 2013-14 in the Findings and Responses section of this report.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

INDEPENDENT AUDITOR'S REPORT ON FUND ACCOUNTABILITY STATEMENT

Board of Directors
HUDA Development Organization
Pul-e-Surkh, Kart-e-Seh,
Kabul, Afghanistan

Report on the Fund Accountability Statement

We have audited the accompanying Fund Accountability Statement of HUDA Development Organization (HUDA) under the Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245 (Awards) from the United States Department of State for the period July 15, 2010 through December 31, 2012, and the related notes to the Fund Accountability Statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the Fund Accountability 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 Fund Accountability 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 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 from material misstatement, except as it relates to continuing education and peer review requirements as discussed in the following paragraph.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by

reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Fund Accountability Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Fund Accountability 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 Fund Accountability 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 Fund Accountability Statement.

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

Basis for Qualified Opinion

During our audit, we identified several items of cost that we determined as either ineligible or questioned based upon our review of the underlying support for the specified transactions. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Awards and applicable laws and regulations, including Office of Management and Budget (OMB) Circular A-122. Unsupported costs are those costs for which no or inadequate supporting documentation was provided. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with the United States Department of State.

Qualified Opinion

In our opinion, except for the ultimate determination and resolution of the identified questioned costs in the amount of \$2,405,102, the Fund Accountability Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by HUDA under the Awards for the period July 15, 2010 through December 31, 2012 in accordance with the basis of accounting as described in Note 2.

Board of Directors
HUDA Development Organization
Pul-e-Surkh, Kart-e-Seh,
Kabul, Afghanistan

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 12, 2013 on our consideration of HUDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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* in considering HUDA's internal control over financial reporting and compliance.

Mayer Hobbes M. Com P. C.

Irvine, California
July 12, 2013

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
 HUDA Development Organization (HUDA) under
 Federal Assistance Awards SAF-200-10-GR 146, SAF-200-10-GR 147
 and SAF-200-10-GR 245

Fund Accountability Statement

For the period July 15, 2010 through December 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Revenues:					
SAF-200-10-GR 146	\$ 2,674,721	\$ 2,674,577	\$ -	\$ -	
SAF-200-10-GR 147	2,634,494	2,634,494	-	-	
SAF-200-10-GR 245	8,374,239	2,093,560	-	-	(3)
Total revenues	<u>13,683,454</u>	<u>7,402,631</u>	<u>-</u>	<u>-</u>	
Costs incurred:					
Personnel	1,022,954	989,371	56,483	317,455	(4), (9)
Travel	55,112	49,745	-	5,747	(5)
Equipment	4,601,509	2,115,791	77,685	648,809	(6), (9)
Construction work and supplies	7,392,299	3,658,593	35,309	1,186,796	(7)
Other direct costs	431,424	7,947	-	-	
Indirect costs	180,156	293,000	3,992	72,826	(8), (9)
Total costs incurred	<u>13,683,454</u>	<u>7,114,447</u>	<u>173,469</u>	<u>2,231,633</u>	
Outstanding fund balance (deficit)	<u>\$ -</u>	<u>288,184</u>	<u>(173,469)</u>	<u>(2,231,633)</u>	(10)

See Notes to Fund Accountability Statement

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Notes to Fund Accountability Statement

For the Period July 15, 2010 to December 31, 2012

(1) **Status and Operation**

HUDA Development Organization Afghanistan (HUDA) is a non-governmental, non-political and nonprofit organization established on October 15, 2009. HUDA aims to help developmental organizations to create genuine and consistent developmental practices in the field and, through that, the kinds of organizations and leadership that make these practices a sustainable reality.

The purpose of these Awards was to support the Afghanistan Media Project (Project). The outcome of the Awards was to build media centers in five universities throughout Afghanistan with the following objectives:

- Provide the universities with modern training facilities and equipment to develop and distribute print, radio and television materials;
- Enhance students' abilities to broadcast self-generated and community information products; and
- Enhance faculty and students' capabilities in the use of modern media production technologies.

By jointly developing the skills of faculty and students in these three mediums, the Project was to promote journalism and further build the capacity of the next generation of Afghan journalists. It was to provide the journalism departments of the universities with the ability to do print, radio and television production in both Dari and Pashto, and allow future journalists to conduct radio and television talk shows with local leaders on key issues.

On July 15, 2010, the United States Department of State (State Department) awarded \$11,650,569 in Federal Assistance Awards (Awards) to HUDA. These awards were subsequently amended and through December 31, 2012, the total award was \$13,683,484 as follows:

<u>Award Number</u>	<u>Initial Award</u>	<u>Number of Amendments</u>	<u>Total Award</u>
S-AF200-10-GR-146	\$ 1,703,750	4	\$ 2,674,721
S-AF200-10-GR-147	1,572,580	4	2,634,494
S-AF200-10-GR-245	<u>8,374,239</u>	2	<u>8,374,239</u>
Total awards	<u>\$11,650,569</u>		<u>\$13,683,454</u>

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Notes to Fund Accountability Statement

(Continued)

(2) **Summary of Significant Accounting Policies**

(a) **Basis of Accounting**

The Fund Accountability Statement reflects the revenues received and expenses incurred under the Contract. It has been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

(b) **Foreign Currency Conversion Method**

Transactions in currencies other than the reporting currency (U.S. Dollar) have been translated from the local currency of Afghanistan at the prevailing exchange rate on the dates of the respective transactions.

(c) **Questioned Costs**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the awards and applicable laws and regulations, including Office of Management and Budget (OMB) Circular A-122. Unsupported costs are those costs for which no or inadequate supporting documentation was provided.

(3) **Revenues**

As of December 31, 2012, HUDA has received \$7,402,631 in payments from the State Department under the three awards.

(4) **Personnel**

HUDA reported personnel costs, which include salaries and consultants, in the amount of \$989,371 for the period July 15, 2010 through December 31, 2012 as follows:

S-AF200-10-GR-146	\$380,621
S-AF200-10-GR-147	366,800
S-AF200-10-GR-245	<u>241,950</u>
Total personnel costs	<u>\$989,371</u>

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Notes to Fund Accountability Statement

(Continued)

(4) Personnel (Continued)

Unsupported personnel costs consisted of the following:

- Cash payments in the amount of \$78,455 paid to national staff were not supported by timesheets which were approved by their supervisors. See Finding 2013-6 in the Findings and Responses section of this report.
- Payments to quality assurance/quality control consultants in the amount of \$239,000 for which there was no evidence that a competitive procurement was performed. See Finding 2013-7 in the Findings and Responses section of this report.

Total unsupported Personnel costs by Award are as follow:

<u>Observation</u>	<u>Award SAF-200-10-GR</u>			<u>Total</u>
	<u>146</u>	<u>147</u>	<u>245</u>	
Timesheets lacked supervisor approval and salaries paid in cash	\$ 18,265	\$ 18,240	\$41,950	\$ 78,455
No competitive bid	<u>119,500</u>	<u>119,500</u>	<u>-</u>	<u>239,000</u>
Total questioned personnel costs	<u>\$137,765</u>	<u>\$137,740</u>	<u>\$41,950</u>	<u>\$317,455</u>

(5) Travel

HUDA reported travel costs in the amount of \$49,745 for the period July 15, 2010 through December 31, 2012 as follows:

S-AF200-10-GR-146	\$19,126
S-AF200-10-GR-147	5,986
S-AF200-10-GR-245	<u>24,633</u>
Total personnel costs	<u>\$49,745</u>

During our review of travel costs, we noted \$5,747 of costs charged to S-AF200-10-GR-245 that were not included in HUDA's accounting records. As such, the costs have been questioned. See Finding 2013-4 in the Findings and Responses section of this report.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Notes to Fund Accountability Statement

(Continued)

(6) **Equipment**

HUDA reported equipment costs in the amount of \$2,115,791 for the period July 15, 2010 through December 31, 2012 as follows:

S-AF200-10-GR-146	\$ 735,719
S-AF200-10-GR-147	735,263
S-AF200-10-GR-245	<u>644,809</u>
Total equipment costs	<u>\$2,115,791</u>

Unsupported equipment costs consisted of the following:

- The invoice provided to support the cost to construct a canopy at the Kabul University Media Operations Center was \$4,000 less than the amount billed to Award SAF-200-10-147. See Finding 2013-2 in the Findings and Responses section of this report.
- Lack of evidence that equipment was competitively bid in the amount of \$644,809 charged to Award S-AF200-10-GR-245. See Finding 2013-1 in the Findings and Responses section of this report.

Total unsupported costs were \$648,809.

(7) **Construction Work and Supplies**

HUDA reported construction work and supplies in the amount of \$3,658,593 for the period July 15, 2010 through December 31, 2012 as follows:

S-AF200-10-GR-146	\$1,529,237
S-AF200-10-GR-147	1,583,286
S-AF200-10-GR-245	<u>546,070</u>
Total construction work and supplies	<u>\$3,658,593</u>

Unsupported construction work and supplies consisted of the following:

- Lack of evidence that construction work and supplies were competitively bid in the amounts of \$207,148, \$46,679 and \$315,744 charged to Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245, respectively. See Finding 2013-1 in the Findings and Responses section of this report.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Notes to Fund Accountability Statement

(Continued)

(7) Construction Work and Supplies (Continued)

- Invoice amounts were less than those recorded in the accounting records, payments were made in excess of contract amounts, there was no evidence of final payment and unsupported payments were noted in the amounts of \$10,776 and \$61,470 charged to awards S-AF200-10-GR-147 and S-AF200-10-GR-245, respectively. See Finding 2013-2 in the Findings and Responses section of this report.
- A payment in the amount of \$3,850 was made to an individual other than the vendor that performed the work. Additionally, a payment in the amount of \$79,200 was made to the HUDA Project Manager who allegedly paid the vendor in cash. Both instances are under Award S-AF200-10-GR-146. See Finding 2013-3 in the Findings and Responses section of this report.
- Costs in the amount of \$56,100 which were charged to Award S-AF200-10-GR-245 but not recorded in the accounting records. See Finding 2013-4 in the Findings and Responses section of this report.
- HUDA did not provide adequate supporting documentation consisting of invoices, agreements, purchase orders, evidence of payment, acknowledgement of receipt of payment and/or evidence of deliveries/output in the amounts of \$333,821, \$29,644 and \$42,364 for Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245, respectively. See Finding 2013-5 in the Findings and Responses section of this report.

Total unsupported construction work and supplies, by Award, are as follows:

<u>Observation</u>	<u>Award S-AF200-10-GR-</u>			<u>Total</u>
	<u>146</u>	<u>147</u>	<u>245</u>	
Missing competitive bid documents	\$207,148	\$46,679	\$315,744	\$ 569,571
Invoice amounts were less than recorded in the accounting records, no evidence of final payment and payments were unsupported	-	10,776	61,470	72,246
Incorrect recipient signature and check endorsed by Project Manager	83,050	-	-	83,050
Costs not included in accounting records	-	-	56,100	56,100
Lack of sufficient documentation to support payment	<u>333,821</u>	<u>29,644</u>	<u>42,364</u>	<u>405,829</u>
Total questioned construction work and supplies	<u>\$624,019</u>	<u>\$87,099</u>	<u>\$475,678</u>	<u>\$1,186,796</u>

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Notes to Fund Accountability Statement

(Continued)

(8) **Indirect Costs**

HUDA reported indirect costs in the amount of \$293,000 for the period July 15, 2010 through December 31, 2012 as follows. HUDA did not charge indirect costs based upon an approved indirect cost rate, but rather directly charged administrative expenses under this cost category.

S-AF200-10-GR-146	\$ 65,647
S-AF200-10-GR-147	59,499
S-AF200-10-GR-245	<u>167,854</u>
Total indirect costs	<u>\$293,000</u>

Unsupported indirect costs consisted of the following:

- No supporting documentation was provided for costs charged in the amounts of \$910 and \$626 to Awards S-AF200-10-GR-146 and S-AF200-10-GR-245, respectively. See Finding 2013-2 in the Findings and Responses section of this report.
- One transaction in the amount of \$10,080 was missing an agreement and evidence of deliveries/output for Award S-AF200-10-GR-146. See Finding 2013-5 in the Findings and Responses section of this report.
- Cash payments in the amounts of \$7,179, \$6,642 and \$44,389 under Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245, respectively, were paid in cash to core national staff and were not supported by timesheets of the employees which were signed by their supervisors. See Finding 2013-6 in the Findings and Responses section of this report.
- Audit costs in the amount of \$1,500 for a period prior to the period of performance were charged to Award S-AF200-10-GR-146. Additionally, audit costs in the amount of \$3,000 were not approved by the State Department. See Finding 2013-8 in the Findings and Responses section of this report.

Total ineligible and unsupported indirect costs, by Award, are as follows:

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Notes to Fund Accountability Statement

(Continued)

(8) Indirect Costs (Continued)

<u>Observation</u>	<u>Award S-AF200-10-GR-</u>			<u>Total</u>
	<u>146</u>	<u>147</u>	<u>245</u>	
Ineligible costs:				
Cost claimed exceeded budget (see Note 9)	\$2,492	\$ -	\$ -	\$2,492
Audit costs prior to period of performance	<u>1,500</u>	<u>-</u>	<u>-</u>	<u>1,500</u>
Total Ineligible costs	<u>\$3,992</u>	<u>-</u>	<u>-</u>	<u>\$3,992</u>
Unsupported costs:				
No supporting documentation provided	\$ 910	\$ -	\$ 626	\$ 1,536
Missing agreement and evidence of deliveries/output	10,080	-	-	10,080
Cash payments and timesheets not approved by Supervisor	7,179	6,642	44,389	58,210
Audit costs not approved	<u>3,000</u>	<u>-</u>	<u>-</u>	<u>3,000</u>
Total unsupported costs	<u>21,169</u>	<u>6,642</u>	<u>45,015</u>	<u>72,826</u>
Total questioned indirect costs	<u>\$25,161</u>	<u>\$6,642</u>	<u>\$45,015</u>	<u>\$76,818</u>

(9) Cost in Excess of Approved Budget

Total costs reported by HUDA include ineligible cost of \$171,969, which represents the cost overruns for two Awards as follows:

	<u>S-AF-200-10-GR-146</u>	<u>S-AF-200-10-GR-147</u>
Total costs incurred	\$2,730,350	\$2,750,834
Total budget	<u>2,674,721</u>	<u>2,634,494</u>
Costs incurred in excess of budget	<u>\$ 55,629</u>	<u>\$ 116,340</u>

These cost overruns were allocated to the cost categories where the cost overruns occurred. The State Department allows for costs to be reallocated between cost categories as long as the aggregate amount of the reallocations does not exceed \$100,000 and 10% of the budget. The actual cost in excess of budget column below does not exceed these thresholds. Therefore, the ineligible costs are limited to the actual costs in excess of the total budget, per Award, as follows:

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Notes to Fund Accountability Statement

(Continued)

(9) Cost in Excess of Approved Budget (Continued)

<u>Cost category</u>	<u>Actual</u>	<u>Budget</u>	<u>Cost in Excess of Budget</u>	<u>Percent of total Award</u>	<u>Allocation of Ineligible Cost</u>
S-AF200-10-GR-146:					
Personnel	\$380,621	\$ 349,892	\$ 30,729	37.77%	\$ 21,011
Equipment	735,719	688,732	46,987	57.75%	32,126
Indirect costs	65,647	62,000	<u>3,647</u>	4.48%	<u>2,492</u>
Total S-AF200-10-GR-146			<u>81,363</u>		<u>55,629*</u>
S-AF200-10-GR-147:					
Personnel	366,800	330,562	\$ 36,238	30.49%	\$ 35,472
Equipment	735,263	688,732	46,531	39.16%	45,559
Construction work and supplies	1,583,286	1,547,214	<u>36,072</u>	30.35%	<u>35,309</u>
Total S-AF200-10-GR-147			<u>118,841</u>		<u>116,340</u>
Total awards			<u>\$200,204</u>		<u>\$171,969*</u>

* The FAS on page 21 of this report has a total ineligible cost of \$173,469 which is \$1,500 more than the questioned ineligible costs reference above. This is due to the \$1,500 ineligible indirect costs for award S-AF200-10-GR146 referenced in Note 8 previously.

See Finding 2013-15 in the Findings and Responses section of this report.

(10) Reconciliation

As of December 31, 2012, HUDA has reported an outstanding fund balance of \$288,184. This outstanding fund balance was due to timing differences between the receipt and disbursement of funds. HUDA received the awards as an advance and had not yet expended all funds received.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE FUND ACCOUNTABILITY STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

Board of Directors
HUDA Development Organization
Pul-e-Surkh, Kart-e-Seh
Kabul, Afghanistan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Fund Accountability Statement of HUDA Development Organization (HUDA) representing revenues received and costs incurred under Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245 for the period July 15, 2010 through December 31, 2012, and the related Notes to the Fund Accountability Statement, and have issued our report thereon dated July 12, 2013, except as it relates to continuing education and peer review requirements as discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free from material misstatement.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Internal Control over Financial Reporting

In planning and performing our audit of the Fund Accountability Statement, we considered HUDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of HUDA's internal control. Accordingly, we do not express an opinion on the effectiveness of HUDA's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Findings and Responses as Findings 2013-1, 2013-3 and 2013-13 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Findings and Responses as Findings 2013-2, 2013-4 through 2013-12, 2013-14 and 2013-15 to be significant deficiencies.

HUDA's Response to Findings

HUDA's response to the findings identified in our audit is described in the accompanying Findings and Responses, and included verbatim in Appendix A. HUDA's response was not subjected to the auditing procedures applied in the audit of the Fund Accountability Statement and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of HUDA's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose. This report is intended for the information of HUDA Development Organization, United States Department of State, and the Special Inspector

Board of Directors
HUDA Development Organization
Pul-e-Surkh, Kart-e-Seh,
Kabul, Afghanistan

General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Mayer Hoffman McCon P.C.

Irvine, California
July 12, 2013



Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

**REPORT ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FUND ACCOUNTABILITY STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

Board of Directors
HUDA Development Organization
Pul-e-Surkh, Kart-e-Seh,
Kabul, Afghanistan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Fund Accountability Statement of HUDA Development Organization (HUDA) representing revenues received and costs incurred under Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245 for the period July 15, 2010 through December 31, 2012, and the related Notes to the Fund Accountability Statement, and have issued our report thereon dated July 12, 2013, except as it relates to continuing education and peer review requirements as discussed in the following paragraph. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement is free from material misstatement.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every 2 years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HUDA's Fund Accountability Statement is free from material misstatement, we performed tests of its compliance with certain

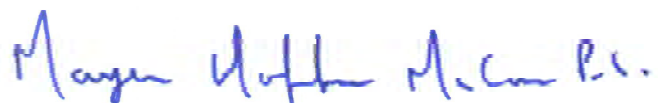
provisions of laws, regulations, and the aforementioned Federal Assistance Awards, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Findings and Responses as items 2013-1, 2013-6 through 2013-8, 2013-10, and 2013-15.

HUDA's Response to Findings

HUDA's responses to the findings identified in our audit are described in the accompanying Findings and Responses, and included verbatim in Appendix A. HUDA's responses were not subjected to the auditing procedures applied in the audit of the Fund Accountability Statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose. This report is intended for the information of HUDA Development Organization, United States Department of State, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.



Irvine, California
July 12, 2013

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-1: Lack of Competitive Bidding Process

Condition:

Our review of HUDA's competitive bidding process noted that HUDA did not consistently bid projects on a competitive basis and failed to retain various documentation associated with the procurement as follows:

<u>Description</u>	<u>Award S-AF200-10-GR-</u>			<u>Total</u>
	<u>146</u>	<u>147</u>	<u>245</u>	
Equipment:				
No requisition; only one quote provided; quote is lump sum only with no breakdown of individual items; no contract or purchase order	\$_____ -	\$_____ -	\$644,809	\$644,809
Total equipment	_____ -	_____ -	644,809	644,809
Construction work and supplies:				
No documentation of competitive bid process for 5 transactions for 146, 1 transaction for 147 and 2 transactions for 245	84,250	12,780	159,364	256,394
No documentation of competitive bid process and no acknowledgement of receipt of payment for 2 transactions for 146	20,000	-	-	20,000
No documentation of competitive bid process, cost not included on invoice and lack of sufficient evidence of payment for 1 transaction for 146	39,850	-	-	39,850
No documentation of competitive bid process and no agreement with contractor for 1 transaction for 146 and 1 transaction for 245	63,048	-	20,000	83,048
No documentation of competitive bid process and voucher not approved by Project Manager for 1 transaction for 147	-	10,000	-	10,000
No documentation of competitive bid process, no agreement with contractor and voucher not approved by Project Manager for 1 transaction for 147	-	10,255	-	10,255
No documentation of competitive bid process, no agreement with contractor and no soils testing report for 1 transaction for 147	-	13,644	-	13,644
No documentation of competitive bid process and no evidence of payment for 1 transaction for 245	-	-	40,000	40,000
No documentation of competitive bid process and lack of evidence of full payment for 1 transaction for 245	_____ -	_____ -	96,380	96,380
Total construction work and supplies	207,148	46,679	315,744	569,571
Total questioned costs due to lack of competitive bids	\$207,148	\$58,699	\$948,553	\$1,214,380

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-1: Lack of Competitive Bidding Process (Continued)

This condition was also reported in the annual audit of HUDA for the years ended December 31, 2009, 2010 and 2011.

Cause:

HUDA stated that there was a limited number of specialized suppliers available, thus competitive bidding procedures were not used. Additionally, lack of management oversight resulted in the omission of documented evidence of procurement.

Criteria:

OMB Circular A-110, Paragraph 43, *Competition*, states, in part:

“...All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade...”

Additionally, HUDA Finance Manual, Section 3, *Purchase Cycle*, states, in part:

“...Quotation shall be called for items with value of \$100 or above. For items valuing more than \$100 and less than \$15,000, at least three quotations will be obtained. For items valuing \$ 15,000 and more, international bid process will apply. Original purchase documents should be maintained at main office...”

Effect:

Lack of a competitive procurement process can result in the payment of more than market for goods and services. This resulted in questioned equipment of \$644,809 under Award S-AF200-10-GR-245, and questioned construction work and supplies expenses of \$569,571, which consists of \$207,148 under Award S-AF200-10-GR-146, \$46,679 under Award S-AF200-10-GR-147 and \$315,744 under Award S-AF200-10-GR-245.

Recommendation:

- (1) We recommend that HUDA either provide the State Department with the missing documentation regarding competitive bids, or return \$1,214,380 to the State Department for projects that were not competitively bid.
- (2) We recommend that HUDA implement improved controls to ensure it follows the requirements of its Finance Manual when procuring goods and/or services.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-2: Supporting Documentation Not Provided

Condition:

HUDA was unable to provide any supporting documentation or the documentation provided did not fully support the cost claimed for the following items:

<u>Description</u>	<u>Award S-AF200-10-GR-</u>			<u>Total</u>
	<u>146</u>	<u>147</u>	<u>245</u>	
Equipment:				
Invoice supports \$4,000, yet \$8,000 included in accounting records	\$ <u>-</u>	\$ <u>4,000</u>	\$ <u>-</u>	\$ <u>4,000</u>
Total equipment	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>4,000</u>
Construction work and supplies:				
Invoice amounts less than accounting records	-	9,566	-	9,566
Payments in excess of contract amount	-	1,210	-	1,210
No evidence of final payment	-	-	41,180	41,180
Unsupported payment	<u>-</u>	<u>-</u>	<u>20,290</u>	<u>20,290</u>
Total construction work and supplies	<u>-</u>	<u>10,776</u>	<u>61,470</u>	<u>72,246</u>
Indirect costs:				
No supporting documentation provided	910	-	-	910
No supporting documentation provided	<u>-</u>	<u>-</u>	<u>626</u>	<u>626</u>
Total indirect costs	<u>910</u>	<u>-</u>	<u>626</u>	<u>1,536</u>
Total questioned costs due to missing documentation or documentation provided did not fully support the costs incurred	<u>\$910</u>	<u>\$14,776</u>	<u>\$62,096</u>	<u>\$77,782</u>

Cause:

Management was unable to locate invoices to support some costs, and lacked an adequate review process for those costs that were billed in excess of the invoice amounts.

Criteria:

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, *General Principles*, Part A, *Basic Considerations*, states, in part:

“...2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-2: Supporting Documentation Not Provided (Continued)

“a. Be reasonable for the performance of the award and be allocable thereto under these principles;...

c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;...

e. Be determined in accordance with generally accepted accounting principles (GAAP);...

g. Be adequately documented....”

Effect:

Lack of management review of invoices submitted to the State Department can result in the billing of unauthorized expenses. This resulted in questioned equipment of \$4,000 under Award S-AF200-10-GR-147, questioned construction work and supplies expenses of \$72,246, consisting of \$10,776 under Award S-AF200-10-GR-147 and \$61,470 under Award S-AF200-10-GR-245, and questioned indirect cost of \$1,536, consisting of \$910 under Award S-AF200-10-GR-146 and \$626 under Award S-AF200-10-GR-245.

Recommendation:

- (1) We recommend that HUDA either provide the State Department with the missing documentation, or return \$77,782 to the State Department because the costs against which the funds were claimed were either unsupported or the invoice amount was less than the cost claimed.
- (2) We recommend that HUDA establish procedures to ensure that amounts included on invoices are properly supported by the accounting records.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-3: Suspicious Payments to Unidentified Individuals

Condition:

The following questionable payments to vendors for construction work and supplies were identified:

- Payment in the amount of \$3,850 was made to a quality assurance/quality control firm for consultation services under Award S-AF200-10-GR-146. The check was subsequently canceled and the payment purported to be made in cash. However, the signature of the acknowledgement of receipt was different from the owner's signature in other related documentation we reviewed. It appears that the payment was made to another individual.
- Payment in the amount of \$79,200 was approved by the HUDA Project Manager to a vendor for the provision of labor for extra construction work under Award S-AF200-10-GR-146. A competitive bidding process was not used. Additionally, the check to the vendor was signed, approved and cashed by the HUDA Project Manager instead of the vendor, and the HUDA Project Manager allegedly paid the vendor in cash. Although an acknowledgement of receipt of the cash was signed, we are unable to determine whether the individual that signed the form is the actual vendor as no other documentation bearing the vendor's signature was available for review.

Total questioned costs were \$83,050.

Cause:

Management lacked adequate internal controls over financial oversight to ensure payments were made only to authorized vendors.

Criteria:

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, *General Principles*, Part A, *Basic Considerations*, states, in part:

"...2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles;...
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;...
- e. Be determined in accordance with generally accepted accounting principles (GAAP);...

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-3: Suspicious Payments to Unidentified Individuals (Continued)

“g. Be adequately documented....”

Effect:

Failure to have adequate internal controls surrounding cash disbursements can result in unauthorized payments. This resulted in total questioned costs of \$83,050 under Award S-AF200-10-GR-146.

Recommendation:

- (1) We recommend that HUDA either return \$83,050 to the State Department or provide documentation to the State Department as to the validity of the questionable payments.
- (2) We recommend that HUDA establish procedures to ensure that payments are made only to authorized vendors.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-4: Cost Claimed to the Awards not Recorded in Underlying Accounting Records

Condition:

Two transactions charged to Award S-AF200-10-GR-245, which were claimed under construction work and supplies and travel expenses in the amounts of \$56,100 and \$5,747, respectively, were not recorded in HUDA's accounting records.

Cause:

This condition occurred due to a lack of management review of HUDA's accounting records and failure to reconcile of amounts recorded in the accounting records to amounts billed to the State Department.

Criteria:

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, *General Principles*, Part A, *Basic Considerations*, states, in part:

“...2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- e. Be determined in accordance with generally accepted accounting principles (GAAP);...
- g. Be adequately documented....”

Effect:

Lack of management review of invoices submitted to the State Department can result in the billing of unauthorized expenses. This resulted in questioned construction supplies expenses of \$56,100 and questioned travel expenses of \$5,747.

Recommendation:

- (1) We recommend that HUDA either return \$61,847 to the State Department or provide the State Department with evidence supporting that the costs claimed were recorded in its books.
- (2) We recommend HUDA establish procedures to ensure that amounts included on invoices are properly supported by the accounting records.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-5: Lack of Adequate Record Retention in the Procurement Cycle

Condition:

Supporting documentation within the procurement process, consisting of agreements, purchase orders, invoices, evidence of delivery and payment, was not provided as follows:

<u>Description</u>	<u>Award S-AF200-10-GR-</u>			<u>Total</u>
	<u>146</u>	<u>147</u>	<u>245</u>	
Construction work and supplies:				
Missing Subcontractor or Suppliers' Agreement/Purchase Order for 4 transactions for 146 and 2 transactions for 245**	\$104,778	\$ -	\$42,364	\$147,142
Missing invoice for 1 transaction for 146	64,000	-	-	64,000
Missing evidence of payment/acknowledgement of receipt of payment for 7 transactions for 146	144,043	-	-	144,043
Missing evidence of payment and evidence of deliveries/output for 1 transaction for 146	21,000	-	-	21,000
Missing evidence of deliveries/output for 1 transaction for 147	-	13,644	-	13,644
Missing invoice and evidence of payment for 1 transaction for 147	-	16,000	-	16,000
Total construction work and supplies	<u>333,821</u>	<u>29,644</u>	<u>42,364</u>	<u>405,829</u>
Indirect cost:				
Missing agreement and evidence of deliveries/output for 1 transaction for 146	<u>10,080</u>	-	-	<u>10,080</u>
Total indirect cost	<u>10,080</u>	-	-	<u>10,080</u>
Total questioned costs due to insufficient support	<u>\$343,901</u>	<u>\$29,644</u>	<u>\$42,364</u>	<u>\$415,909</u>

** The total amount questioned under construction work and supplies for Award S-AF200-10-GR-146 is \$183,978, of which \$79,200 was questioned in Finding 2013-3. As such, only \$104,778 is questioned under this Finding.

Cause:

This condition occurred due to a lack of management oversight over its procurement process. Inadequate records retention for purchased goods and/or services resulting in management being unable to retrieve the requested supporting documentation.

Criteria:

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, *General Principles*, Part A, *Basic Considerations*, states, in part:

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-5: Lack of Adequate Record Retention in the Procurement Cycle (Continued)

“...2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

a. Be reasonable for the performance of the award and be allocable thereto under these principles;...

c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;...

e. Be determined in accordance with generally accepted accounting principles (GAAP);...

g. Be adequately documented....”

Effect:

Lack of adequate policies to retain documents supporting costs claimed can result in otherwise allowable costs being questioned. This resulted in questioned construction work and supplies expenses of \$405,829, consisting of \$333,821 under Award S-AF200-10-GR-146, \$29,644 under Award S-AF200-10-GR-147, and \$42,364 under Award S-AF200-10-GR-245, and questioned indirect cost of \$10,080 under Award S-AF200-10-GR-146.

Recommendation:

- (1) We recommend that HUDA either provide the missing documentation to the State Department or return \$415,909 to the State Department for unsupported costs.
- (2) We recommend that HUDA establish procedures to ensure that all documentation supporting costs claimed is retained as required by the awards.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-6: Salaries Paid in Cash and Missing Supervisory Approval for Timesheets

Condition:

Salaries of all local core national staff were paid in cash throughout the period July 15, 2010 through December 31, 2012. Additionally, the monthly time sheets of all of the sampled employees supporting the payroll sheets were not approved by the immediate supervisor. These conditions occurred in all 10 of the months tested. Therefore, all personnel costs and associated indirect costs incurred by core national staff for the entire 28-month period were questioned as follows:

<u>Award Number</u>	<u>Cost Category</u>		<u>Total Questioned Costs</u>
	<u>Personnel</u>	<u>Indirect Cost</u>	
S-AF200-10-GR-146	\$18,265	\$ 7,179	\$ 25,444
S-AF200-10-GR-147	18,240	6,642	24,882
S-AF200-10-GR-245	<u>41,950</u>	<u>44,389</u>	<u>86,339</u>
Total questioned personnel costs	<u>\$78,455</u>	<u>\$58,210</u>	<u>\$136,665</u>

This condition was also reported in the annual audit of HUDA for the years ended December 31, 2009, 2010 and 2011.

Cause:

The conditions occurred due to a lack of adequate management oversight, as well as a lack of enforcement of its finance manual. In addition, the CFO was not familiar with the requirements of OMB Circular A-122.

Criteria:

HUDA Finance Manual, Section 5, *Salary Payment Cycle*, states, in part:

“Salaries shall be paid through banks.”

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, *Selected Items of Cost*, Paragraph 8, *Compensation for personal services*, states, in part:

“...m. Support of salaries and wages.

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization...

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-6: Salaries Paid in Cash and Missing Supervisory Approval for Timesheets (Continued)

“(2)(c) The reports must be signed by the individual employee and by a responsible supervisory official having first-hand knowledge of the activities performed by the employee...”

Effect:

Paying salaries in cash can increase the risk of cash being misappropriated, especially in a hostile environment where adequate internal controls can be difficult to implement. In addition, lack of supervisory review of timesheets can result in unauthorized or inaccurate hours charged to the Awards. Total questioned personnel and associated indirect costs were \$136,665, consisting of \$25,444 under Award S-AF-200-10-146, \$24,882 under Award S-AF200-10-GR-147, and \$86,339 under Award S-AF-200-10-245, as well as non-compliance with OMB Circular A-122 and the HUDA Finance Manual.

Recommendation:

- (1) We recommend that HUDA return \$136,665 to the State Department for unsupported personnel costs paid in cash, or provide the State Department with adequate documentation to support that the costs incurred were allowable and represented actual hours worked.
- (2) We recommend that HUDA institute a banking agreement so that all salaries may be paid through the bank.
- (3) We recommend that HUDA implement a timekeeping policy to require management to review and approve via signature that the timesheets submitted by employees are accurate and represent actual hours worked.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-7: Missing Documentation of Competitive Bid Process and Costs Appear Unreasonable

During the testing of personnel costs under Federal Assistance Awards S-AF200-10-GR-146 and S-AF200-10-GR-147, we noted hiring services were performed by a third party quality assurance/quality control (QA/QC) firm during the period October 2010 through December 2012. The total cost incurred was \$239,000, with \$119,500 charged to each Award. Our testing noted the following:

- No documentation was provided to support whether this contract was competitively bid;
- Costs were comparatively higher than other similar services performed. For instance, another QA/QC service performed for a similar project at a different university for same period of performance was only \$132,620;
- Payment patterns appear irregular. For example, in October and November 2010, the monthly payment was \$4,500. Then for the subsequent 9 months, the payments were \$25,556 per month. Finally, during the closeout period of the contract, an amount of \$81,500 was paid; and
- Payments for the QA/QC services appeared to be in advance instead of on a cost reimbursement basis, which did not agree with the terms of the contract with the QA/QC firm. For example, HUDA began paying the QA/QC firm for its services in October 2010, but the first services result report was for the period of March 2011.

Cause:

Management indicated that procuring the quality assurance/quality control firm through a competitive process was not required as the size of the contract was insignificant, i.e., less than 10% of the award.

Criteria:

OMB Circular A-110, Paragraph _____.43, *Competition*, states, in part:

“...All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade...”

Additionally, HUDA Finance Manual, Section 3, *Purchase Cycle*, states, in part:

“...Quotation shall be called for items with value of \$100 or above. For items valuing more than \$100 and less than \$15,000, at least three quotations will be obtained. For items valuing \$ 15,000 and more, international bid process will apply. Original purchase documents should be maintained at main office...”

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-7: Missing Documentation of Competitive Bid Process and Costs Appear Unreasonable (Continued)

Furthermore, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, *General Principles*, Part A, *Basic Considerations*, states, in part:

“...2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

a. Be reasonable for the performance of the award and be allocable thereto under these principles;...

c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;...

e. Be determined in accordance with generally accepted accounting principles (GAAP);...

g. Be adequately documented....”

Effect:

Failure to competitively bid goods and/or services can result in the procurement of goods and/or services that are at a price in excess of market. Total questioned personnel costs were \$239,000, consisting of \$119,500 each under Awards S-AF200-10-GR-146 and S-AF200-10-GR-147.

Recommendation:

- (1) We recommend that HUDA either provide evidence to the State Department that the contract for the quality assurance/quality control firm was competitively bid, or return \$239,000 to the State Department.
- (2) We recommend that HUDA establish procedures to ensure it complies with the requirements of its Finance Manual and OMB Circulars A-110 and A-122 with respect to competitive bidding.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-8: Audit Cost for Period Prior to the Award

HUDA charged the cost of an audit for the year ended December 31, 2009 to Award S-AF200-10-GR-146. However, the period of performance of the Award began on July 15, 2010. As such these costs are ineligible. The total cost of the audit was \$1,500. Additionally, HUDA charged audit costs in the amount of \$3,000 for the years ended December 31, 2010 and 2011 to Award S-AF200-10-GR-146. These audits were not for a Single Audit, which is allowable, and were not approved by the State. Thus the cost has been questioned.

Cause:

The CFO was not familiar with the Federal Cost Principles for non-profit organizations. Additionally, lack of management oversight resulted in the inclusion of costs applicable to periods prior to the Award.

Criteria:

Award S-AF200-10-GR-146, Award Specifics, Paragraph 3 states, in part:

“...Project activities are scheduled to begin on or about July 15, 2010...”

Additionally, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B, *Selected Items of Cost*, Paragraph 4, *Audit Costs*, states, in part:

“...a) The costs of audits required by, and performed in accordance with, the Single Audit Act, as implemented by Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" are allowable.

b) Other audit costs are allowable if included in an indirect cost rate proposal, or if specifically approved by the awarding agency as a direct cost to an award...”

Effect:

Inclusion of ineligible audit costs for a period prior to the period of performance and failure to obtain approval for other audit costs from the State Department signifies that HUDA does not have an understanding of key cost principles and might not be competent to manage a federal award. This resulted in ineligible costs of \$1,500 and unsupported costs of \$3,000 charged to Award S-AF200-10-GR-146.

Recommendation:

- (1) We recommend that HUDA return \$1,500 of ineligible audit costs to the State Department.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-8: Audit Cost for Period Prior to the Award (Continued)

- (2) We recommend that HUDA either demonstrate to the State Department the allowability of audit costs incurred during the audit period or return \$3,000 to the State Department.
- (3) We recommend that HUDA demonstrate to the State Department that it has become familiar with key cost principles and is capable of managing an award.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-9: Lack of Adequate Internal Controls Surrounding Cash Disbursements

Condition:

The following weaknesses were noted in HUDA's internal controls surrounding its cash disbursement cycle:

- Vouchers are not pre-numbered or indexed;
- Hard copies of supporting payment vouchers were prepared after the expense entries were posted in the general ledger;
- Inconsistency in the posting of payment vouchers as multiple payments for different invoices were lumped into one single general ledger posting entry and also multiple general ledger posting entries were lumped into one payment voucher;
- Vouchers were not approved and/or authorized by the designated authorized personnel until after the payments were made; and
- An audit trail was not documented as to the allocation of costs between the different awards.

This condition was also reported in the annual audit of HUDA for the years ended December 31, 2009, 2010 and 2011.

Cause:

HUDA management was unable to effectively enforce its cash disbursement policy to ensure that employees were following the requirements of its Finance Manual when processing payments.

Criteria:

HUDA Finance Manual, Section 2, *Financial System*, states, in part:

“...2.0 Accounting system should be according to the requirement of the donor, double entry system, in accordance with Internationally Accepted Accounting Practices...

2.6 Vouchers should be numbered and signed...”

Effect:

Failure to exercise adequate management oversight of its cash disbursement policies increases the risk that funds will be expended for unauthorized and unallowable transactions. This equates to an increased risk in HUDA's ability to properly manage a Federal award.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-9: Lack of Adequate Internal Controls Surrounding Cash Disbursements (Continued)

Recommendation:

We recommend that HUDA strengthen its controls surrounding its cash disbursements cycle to ensure that its disbursements are only made for authorized, allowable transactions by implementing the following, at a minimum:

- (1) All vouchers should be pre-numbered;
- (2) Supporting vouchers must be prepared and approved prior to releasing payment for goods and/or services;
- (3) Consistency in the recording of transactions within its accounting records; and
- (4) Adequate documentation exists to demonstrate to which awards costs are being charged.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-10: Initiation of Work Before Signing of Memorandum of Understanding (MOU)

Condition:

During our testing of the Award S-AF200-10-GR-245, we noted that a subcontract was awarded by HUDA to a vendor for the construction and procurement of media equipment for four universities (Kandahar University, Nangarhar University, Balkh University and Khost University) for printing, radio and TV studios with a total contract value of \$3,224,045. Subsequent to award, the scope of the project was reduced by removing Khost University. Due to delays in obtaining a signed MOU and revision to the work plan (removing Khost University), the construction work could not be started as scheduled and the project was terminated. Advance payments in the amount of \$111,910 were made for the descoped project. Additionally, costs in the amount of \$162,345 for technical designing, soil testing and mobilization for Khost University were incurred.

Cause:

Management indicates the condition occurred due to a long delay in signing the MOU. However, HUDA failed to have adequate prudent control in place during planning and initiation of the awards in order to avoid unnecessary initiation costs incurred.

Criteria:

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, *General Principles*, Section A, *Basic Considerations*, Paragraph 4, *Allocable Costs*, states, in part:

“...A cost is allocable to a Federal award if it...

(1) Is incurred specifically for the award.

(2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received...”

Effect:

Unnecessary and unreasonable costs of \$274,255 were incurred due to HUDA failure to properly initiate a project. This amount has already been questioned as part of the questioned equipment costs of \$644,809 in Finding 2013-1.

Recommendation:

We recommend that HUDA establish procedures to exercise due care in planning and initiation of a project to avoid and/or minimize unrecovered costs.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-11: Missing Documents in Personnel Files

Condition:

During our testing of personnel files of the 20 employees of HUDA, we noted following:

- Education/experience certificates/documents were missing in the personnel files of 11 out of 20 employees.
- Standard recruitment procedures were not followed for project staff. Several documents related to the recruitment were missing in the personnel files. Of the 20 employees tested, the following exceptions were noted:

<u>Missing Document</u>	No. of Personnel Files with Missing <u>Documents</u>
Job announcement	19
Application letter	16
CV	8
Education/experience certificates	11
Written test paper	19
Short list form	20
Interview panel's recommendations	20
Appointment letter	20
Terms of Reference (ToR)	14

- Documents related to the human resource management function were missing. Of the 20 employees tested, the following exceptions were noted:

<u>Missing Document</u>	No. of Personnel Files with Missing <u>Documents</u>
Performance evaluations	18
Promotions	18
Warning letters	18
Leave record	18

This condition was also reported in the annual audit of HUDA for the years ended December 31, 2009, 2010 and 2011.

Cause:

The condition occurred due to a lack of adequate management oversight over the human resource function.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-11: Missing Documents in Personnel Files (Continued)

Criteria:

29 CFR Section 1602.14, *Preservation of records made or kept*, states, in part:

“Any personnel or employment record made or kept by an employer (including but not necessarily limited to requests for reasonable accommodation, application forms submitted by applicants and other records having to do with hiring, promotion, demotion, transfer, lay-off or termination, rates of pay or other terms of compensation, and selection for training or apprenticeship) shall be preserved by the employer for a period of one year from the date of the making of the record or the personnel action involved, whichever occurs later...”

Additionally, OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A, *General Principles*, Part A, *Basic Considerations*, states, in part:

“...2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles;...
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization;...
- e. Be determined in accordance with generally accepted accounting principles (GAAP);...
- g. Be adequately documented....”

By applying these criteria, personnel records must be maintained as required by the EEOC, but retained to fully support the costs claimed against Federal awards.

Effect:

Lack of effective control over the human resource function could result in the hiring of unqualified employees who may not have the skill set necessary for which they are being funded by a Federal agency. Additionally, failure to adequately maintain all personnel records can result in the concealment of rational for a hiring decision, promotion, raise, etc.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-11: Missing Documents in Personnel Files (Continued)

Recommendation:

We recommend that HUDA develop a comprehensive human resource management policy which includes all of the standard internal control regulations for proper documentation of the staff recruitment process and human resource management function to ensure transparency, efficiency and accountability within the organization.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-12: Lack of Adherence to Employment Policies

Condition:

HUDA has a policy to deduct 10% of the salary of a newly-hired employee during their probationary period. During our testing of employment practices, we noted that no salary had been withheld during the probationary period for newly-hired employees.

Cause:

Management overlooked the requirements of its Finance Manual.

Criteria:

HUDA Finance Manual, Section 5, *Salary Payment Cycle*, states, in part:

“...10% of the salary will be deducted during the three months’ probation period of the employees...”

Effect:

Failure to deduct 10% of a newly-hired employee’s salary during their probationary period resulted in HUDA being noncompliant with its own policy.

Recommendation:

We recommend that HUDA review its policy on withholding salary from a probationary employee and determine whether it is still an appropriate organizational practice. If it is determined to still be valid, then HUDA should institute controls to enforce its policy.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-13: Excessive Cash Payments

Condition:

HUDA made payments in cash totaling \$626,922 for all three Awards. This condition was also reported in the annual audit of HUDA for the years ended December 31, 2009, 2010 and 2011.

Cause:

Management allowed the practice of payment for goods and/or services in cash.

Criteria:

OMB Circular A-110, Paragraph ____.21, *Standards for financial management systems*, states, in part:

“...(3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes...”

Additionally, OMB Circular A-113, Paragraph ____.300, *Auditee responsibilities*, states, in part:

“...The auditee shall:...

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs...”

Furthermore, OMB Circular A-133, Paragraph ____.105, *Definitions*, states in part:

“...Internal control means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of financial reporting; and
- (3) Compliance with applicable laws and regulations...”

Effect:

Payments in cash could have enabled U.S. funding to support illegal activities and enemy combatants.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-13: Payments Made in Cash (Continued)

Recommendation:

We recommend that HUDA discontinue the practice of paying in cash. If it is absolutely necessary that payment be made in cash, then HUDA needs to strengthen its internal controls to ensure adequate documentation exists to support who received the payment and what the payment was for.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-14: Lack of Segregation of Duties

Condition:

During our review of internal controls, we noted that the same individual was responsible for making cash payments was recording the transactions in the accounting system. In addition, Project Manager had the responsibility of hiring subcontractors, monitoring their work, submitting progress and financial reports and approving all the payments. This condition was also reported in the annual audit of HUDA for the years ended December 31, 2009, 2010 and 2011.

Cause:

Due to the budget constraints, HUDA had a limited number of staff and employees were required to perform many functions.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), Internal Control – Integrated Framework, Chapter 4, *Control Activities*, states, in part:

“...Segregation of Duties – Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions...”

Effect:

Lack of a proper segregation of duties results can result in the loss, misuse or misappropriation of funds.

Recommendation:

We recommend that HUDA review the functions performed by its employees to ensure that incompatible functions are segregated, either through the introduction of a review process, or reallocating incompatible duties to others.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147 and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-15: Expenses in Excess of Budget

The reported costs for Awards S-AF200-10-GR-146 and S-AF200-10-GR-147 exceeded the budget for various cost categories as follows. No transfer was made or funds requested from other cost categories to offset the cost overruns.

<u>Cost category</u>	<u>Actual</u>	<u>Budget</u>	<u>Cost in Excess of Budget</u>
S-AF200-10-GR-146:			
Personnel	\$ 380,621	\$ 349,892	\$30,729
Equipment	735,719	688,732	46,987
Indirect costs	<u>65,647</u>	<u>62,000</u>	<u>3,647</u>
Total S-AF200-10-GR-146	<u>1,181,987</u>	<u>1,100,624</u>	<u>81,363</u>
S-AF200-10-GR-147:			
Personnel	366,800	330,562	36,238
Equipment	735,263	688,732	46,531
Construction work and supplies	<u>1,583,286</u>	<u>1,547,214</u>	<u>36,072</u>
Total S-AF200-10-GR-147	<u>2,685,349</u>	<u>2,566,508</u>	<u>118,841</u>
Total all awards	<u>\$3,867,336</u>	<u>\$3,667,132</u>	<u>\$200,204</u>

The total costs for these two Awards exceeded the budget as follows. Since the State Department allows for costs to be reallocated between cost categories so long as the aggregate amount of the reallocations does not exceed \$100,000 and 10% of the budget. The cost overruns above do not exceed these thresholds. Therefore, the ineligible costs are limited to the actual costs in excess of the total budget, per Award, as follows.

	<u>S-AF200-10-GR-146</u>	<u>S-AF200-10-GR-147</u>
Total costs incurred	\$2,730,350	\$2,750,834
Total budget	<u>2,674,721</u>	<u>2,634,494</u>
Costs incurred in excess of budget	<u>\$ 55,629</u>	<u>\$ 116,340</u>

Cause:

This condition occurred due to management's inability to effectively monitor its budget, which resulted in all of the media centers not being delivered as planned in the award.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-15: Expenses in Excess of Budget (Continued)

Criteria:

The U.S. Department of State, Standard Terms and Conditions, Overseas Federal Assistance Awards, Section 10, *Prior Approval Requirements*, states in part:

- “• Written prior approval, by way of amendment, from the Department of State’s GO is required for:...
- 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...”

Effect:

Failure to obtain approval prior to incurring costs in excess of the budget resulted in ineligible costs as follows:

<u>Cost category</u>	<u>Cost in Excess of Budget</u>	<u>Percent of Total Award</u>	<u>Allocation of Ineligible Costs</u>
S-AF200-10-GR-146:			
Personnel	\$ 30,729	37.77%	\$ 21,011
Equipment	46,987	57.75%	32,126
Indirect costs	<u>3,647</u>	<u>4.48%</u>	<u>2,492</u>
Total S-AF200-10-GR-146	<u>81,363</u>	<u>100.00%</u>	<u>55,629</u>
S-AF200-10-GR-147:			
Personnel	36,238	30.49%	35,472
Equipment	46,531	39.16%	45,559
Construction work and supplies	<u>36,072</u>	<u>30.35%</u>	<u>35,309</u>
Total S-AF200-10-GR-147	<u>118,841</u>	<u>100.00%</u>	<u>116,340</u>
Total all awards	<u>\$200,204</u>		<u>\$171,969</u>

Recommendation:

- (1) We recommend that HUDA return \$171,969, consisting of \$55,629 for Award S-AF200-10-GR-146 and \$116,340 for Award S-AF200-10-GR-147, to the State Department for costs incurred in excess of approved budget.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

For the Period July 15, 2010 to December 31, 2012

2013-15: Expenses in Excess of Budget (Continued)

- (2) We recommend that HUDA implement procedures to monitor the budget to ensure costs are not incurred and claimed which are in excess of budgeted amounts.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

HUDA Response to Findings

For the Period July 15, 2010 to December 31, 2012

Included on the following pages is HUDA's response received to the findings identified in this report. In addition to the narrative response, HUDA provided documentation that, in its opinion, supports its position on various findings. Due to the voluminous and proprietary nature of this documentation, it has not been included within this report. The documentation has been provided to SIGAR under separate cover.

**Financial Audit of Costs Incurred Under
Federal Assistance Awards SAF-200-10-GR146, SAF-200-10-
GR147 and SAF-200-10-GR245**

**For the Period July 15, 2010 to December 31, 2012
HUDA Management Note**

2013-1: Lack of Competitive Bidding Process

HUDA Management Response

1a) Vouchers are now numbered and indexed, with relevant supporting documents

1b) The Program Manager is the single authorized focus point to approve payment. Approval by Program Manager and disbursements has to correspond to chart of accounts, and is enforced by Grand and Finance Manager

1c). HUDA Developed a chart of accounts corresponding to approved budget categories and line items itemized in detailed cost breakdown submitted to and approved by US Embassy Kabul in the post specific details awards

Will revise the control system and acknowledge the comment regarding budget categories. The control system being applied is based on budget categories; that is the Program Manager approves expenditure items in line with classified budget categories. A single voucher in some instance covers various expenditure items under a budget category for example construction.

Payment request made recommend standard control procedures to be followed All vouchers have been authorized and duly approved by Project Manager

Acknowledge need to make vouchers then put in GL

Acknowledged that supporting documents need to be attached with voucher, not just evidences of payments neither having them in separate folders

The vouchers presented were draft vouchers and proper coordination and alignment with supporting documents are usually made at the end of quarter period, however due to the time setting audit the coordination was incomplete. However the alignment has been made.

All the vouchers and all financial supporting documents are now resident in the Finance office, however accessible supporting documents were not scattered; some were in Project Manager's office and were filed and prepared for transfer to Finance Office

As explained in the HUDA Management Note-02-2013 submitted to the Audit Team with folders of relevant documentation of competitive bidding; thorough competitive bidding process was adopted and the documentations relating to the bids were duly presented to the field audit team, and thoroughly explained by the Program Manager.

There are four major components of the AUMOC Project Viz:

- Construction
- Media Equipment Supply and Installation
- Design Services
- Soil Testing and Geotechnical Investigations

These components were competitively bided for and bids and quotations analyzed by the Program Manager assisted by the Grant and Finance Manager and Independent International QA/ QC Consultants which were hired by HUDA and endorsed by the ruling assigned Grant Officer in charge at US Embassy Kabul who reviewed their profiles and QA/ QC Policies.

The only sub-component which was sole-source was in respect of “Seismic Analysis”, where there was only one company within Afghanistan who could conduct the analysis for the Media Operations Center Buildings.

With regards to Construction Cost, a detailed market price survey was also conducted by the PAS- US Embassy in Kabul to verify the cost breakdown on itemized basis that was presented by HUDA for the grants.

Please find attached “extracts” of e-mail communications referring to the verification and validation of HUDA Construction Cost Budget

The itemized costs for which auditors are claiming no competitive bidding are partial costs of a “turnkey cost” of construction based on contract amount; they are not single items of supply; they were partial payments based on construction works done as part of an agreed milestone of the construction contract agreement.

The construction contract agreements were not based on individualized item transactions, rather on a total sum covering major construction areas and works; thus the requested claim for competitive bid process for individualized transactions was not applicable.

The title “Construction Work and Supplies” as budget category was actually “Construction Contractual” work, and as earlier mentioned was on a total contract overall amount covering overall construction work areas.

With regards to S-AF200-10-GR245; HUDA’s proposal and cost was selected from a competitive bid process implemented by the US Embassy in Kabul, which was internationally advertised; HUDA submitted detailed proposal with other companies and was duly awarded the grant based on technically acceptable best value.

Both the Construction Cost breakdown and Detailed Equipment List and Cost breakdown were part of the supporting documents submitted to the US Embassy in Kabul, which formed the basis for categorization of sum of budget line items and grant approval

Media Equipment- A detailed competitive bidding process was implemented by HUDA including site visits to vendors and vendors’ similar projects, which was then followed up with an assessment based on quantitative and qualitative rating to select the best value, technically competent vendor. The assessment report was submitted to the “ruling” grant officer before final contract for equipment vendor selection. The assessment report titled “AUMOC-Media Equipment Final Report- Jan 15, 2011 was submitted to the Audit Team.

The amount of \$644,809 referred to was 20% deposit on the contract value of \$3,224,045 for 4 Universities Media Studio Equipment Packages supported by detailed item in each of the media equipment package based on the quotations submitted in the proposal to the US Embassy and approved as detailed in the post-award specifics for GR245.

Relevant documentation including copy of proposal was presented and provided to the Audit Team.

Standard Competitive processes were duly followed based on solicitations from identified and pre-qualified vendors both through submitted bids or quotations. Copies of the processes were given to the Auditors and copies of these were shown at meeting which was held on April 1, 2013, where the process for selecting the materials and subcontractors was outlined for each relevant component as required.

All reports of services contracted Design/ Soil Testing/ Surveys and QA/ QC and construction reports were provided to Auditors, though they were not attached to payment vouchers; however they were referenced as appropriate.

2013-2: Supporting Documentation Not Provided**HUDA Management Response**

All invoices and supporting documents referred to have been located and reconciled accordingly and the costs are in accordance with costs allowable for the grants for discrete transactions relevant to project performance.

2013-3: Suspicious Payments to Unidentified Individuals**HUDA Management Response**

There were no suspicious payments to unidentified individuals; the individuals referred to were due representative vendors.

Quantity of labor based on Independent QA/ QC assessment of extra shift labor needed, and an individual labor construction supplier was utilized to provide daily workers, with daily labor attendance maintained.

The “Individual Labor Supplier” works as an Independent Construction Labor Supplier; he does not run a company, he recruits and supplies construction labor workers for various projects across provinces as required.

HUDA has worked with this individual in past construction grant related projects funded by US Embassy awarded to HUDA (Computer Lab Renovation Works; Cultural Center Renovation Assessment Workers etc) and he has proven reliable performance, thus there was no bid process in this regard. However proper documentation on quantity and labor rates for the labor categories supplied were supervised and verified by QA/ QC and he was paid accordingly in cash. The labor schedule and payment to contractor with evidence of receipt of cash was duly provided to the Audit Team.

Management has proper financial oversight by verifying and ensuring the identities of authorized vendors; only authorized vendors were paid directly either by cash or check as requested by vendor, otherwise a signed note is requested from authorized vendor and is followed up by telephone confirmation from Grant and Finance Manager to authorized vendor to confirm the representing individual before payment is made.

2013-4: Cost Claimed to the Awards not Recorded in Underlying Accounting Records

HUDA Management Response

There were no unauthorized expenses billed to the grant; the Audit Team had selected payments at random from the accounting records, and in some instances they were partial payments, with follow-up completion payments made and recorded accordingly.

The stated expenses have been reconciled with relevant supporting documents and are allowable costs to the performance of the grant within approved US Embassy budget categories.

2013-5: Lack of Adequate Record Retention in Procurement Cycle

HUDA Management Response

All costs incurred under the respective categories were duly approved by the US Embassy Grant Officer and were thus considered reasonable for the performance of the awards.

The US Embassy Grant Officer through their own various cost surveys and analysis verified and ascertained the reasonableness of all costs incurred as relevant and of best-value.

Attached extracts of e-mail correspondence from US Embassy Grant Officer to HUDA Program Manager on Cost Analysis

HUDA has the relevant documentation supporting necessary construction costs and indirect costs and provided supporting documents based on list of verifiable expenditures that Audit Team requested. The challenge with the Audit Team was lack of cooperation and understanding and impatience based on their claims of limited time to allow HUDA to coordinate retained documentation supporting costs.

2013-6-: Salaries Paid in Cash and Missing Supervisory Approval for Timesheets**HUDA Management Response**

HUDA has maintained records of all projects staff salary payments throughout the project cycle period.

The Human Resources Officer prepares monthly salary sheets based on employee daily attendance sheets; all monthly salary sheets for each employee is verified and attested by Grant and Finance Manager, and duly approved by Program Manager.

All HUDA staff on the grants have been employed since the commencement of the projects and have demonstrated competencies relevant to the performance of the grants; despite economic index increases in Afghanistan during the project life cycle period, there have been no increases in staff salaries granted, the staff costs are allowable and under-rated compared to similar USG funded projects national staff costs.

All staff costs and indirect costs are based on approved US Embassy budget cost categories as highlighted in post-award specifics.

2013-7: Missing Documentation of Competitive Bid Process and Costs Appear Unreasonable**HUDA Management Response**

HUDA proposed the use of third party Quality Assurance/ Quality Control (QA/ QC services to the Embassy to ensure achievement of international building standards for the construction works.

The profile of the QA/ QC firm with qualifications of the QA/ QC, justification for QA/ QC costs and detailed QA/ QC policies were submitted to the Embassy's Grant Officer and were duly reviewed and approved with corresponding amendments; these documents (QA/ QC Profile/ CVs) were submitted to the AUDIT Team for review.

The QA/ QC services covered both pre-construction period which included review of designs (architectural, structural, mechanical and electrical) and the geotechnical and soil testing reports, these pre-construction periods was from October 2010 through January, 2011.

HUDA Management did not indicate that competitive bid process was not required; the explanation provided was that since this was a “specialist technical” area, and due to time limitations, HUDA sourced locally through the Afghan Builders Association (ABA) to locate a competent firm in-country with US/ IBC Construction Standards expertise and experience, and there was only one firm referred.

As earlier expressed, the firm with the qualifications of the consultants, costs and policies were duly presented to the US Embassy Grant Officer who sought the assistance of USAID Vertical Structures subject-matter experts in Afghanistan for their review accordingly; and satisfactory approval was received upon which an amendment to the awards was made and the QA/ QC budget was approved and granted to HUDA.

Thus to the maximum extent practical and with due submission and review and consequent approval by the US Embassy Grant Officer, the QA/ QC firm and costs were approved and expenditures incurred accordingly and documented.

The US Embassy Grant Officer upon their decision of approval for independent QA/ QC Consultants for the grants effected an amendment to the grants for recruitment and inclusion of Independent QA/ QC Consultants in the project with relevant costs allowable approved.

All QA/ QC documentation – contract; consultants CVs and policies were submitted to the Audit Team and also represented at the April 1, 2013 meeting with Audit Team Leader and Audit Firm Director.

HUDA Development Organization (HUDA)

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2013-8: Audit Cost for Period Prior to the Award

HUDA Management Response

The Federal Assistance Award agreement signed for the three grants specified that the awards are “Not Subject to Circulars including OMB Circular A-122; the Auditor’s unawareness of the details of the awards which were submitted and presented to them showed the lack of understanding of the applicable rules governing the awards. This demonstrates our claim that the Audit Team failed to cooperate with HUDA Management by giving due attention to the details of award documentation and supporting documents provided and context governing “Award Specifics”; “Post Specific Requirements” and “Standard Overseas Terms and Conditions”; rather a general approach to auditing was being applied. Thus the Audit Team is unfamiliar of applicable rules and standards governing the grant awards and lacks management oversight as indicated and referenced in all their findings to identify the applicable rules as stated by the State Department.

HUDA Management is well capable of management an award as the organization has proven records of its performance. The audit was conducted in April, 2012 covering the years 2009, 2010, and 2011, it was done based on an indication comment during a visit to HUDA Management Team in 2011 by two SIGAR representatives in which an interview was held with HUDA Program Manager and Grant and Finance Manager. The audit was not conducted before the period of performance of the award, and the costs were charged to “Indirect Cost” category.

2013-9: Lack of Adequate Internal Controls Surrounding Cash Disbursements

HUDA Management Response

All vouchers have been duly numbered and indexed accordingly. Every voucher has an accounting and a cost center code which corresponds to the budget category and the relevant grant award being charged.

Supporting documents were reviewed and on basis of allowable approved budget costs were consequently approved by Program Manager and entries were posted. Due to time, some supporting documents were not aligned and attached to the vouchers, and some vouchers were not signed due to project travel schedule of the Program Manager, however all vouchers raised were based on allowable and approved costs as per approved budget by the US. Embassy

HUDA Development Organization (HUDA)

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All identified expenditures by the Audit Team were fully supported with relevant supporting documents.

Allocation of costs were clearly separated for each award and indicated on the vouchers.

Excluding salaries to project staff; cash disbursements to vendors was less than 10% of total expenditure disbursements.

The accounting system is properly set up according to the donor requirements based on approved budget line items per each award.

HUDA submitted quarterly financial statements with monthly breakdown of expenditures to the US Embassy Grant Officer, and the reports were properly reviewed to guard against unallowable transactions and expenditures to unauthorized persons or organizations

HUDA's ability to properly manage a Federal Award has been adequately proven by demonstrating due diligence and financial responsibility through consistent financial reporting to the US Embassy and aligned within allowable costs for the goods and services delivered which have met high performance achievements. Thus the risks of disbursements for unauthorized and unallowable transactions have been nonexistent during the project life cycle.

2013-10: Initiation of Work before Signing of Memorandum of Understanding (MOU)

HUDA Management Response

HUDA was not responsible to obtain a signed MOU between Afghan Government Ministry of Higher Education and the United States Embassy, Kabul. It was the full responsibility of US Embassy, Kabul-PAS and thus HUDA did not fail in a responsibility that was not the organization's.

As to the initiation of works related to the project award, proper approval was sought and given by the Grant Officer after the signing of the Federal Assistance Award Agreement with attached Award Specifics, and signing of "MOU"

The Federal Assistance Award Agreement which included approved and allowable budget item costs and categories were based on proposals submitted to the US Embassy, Kabul Grant Officer which included submitted vendor costs for works, goods, and services.

The commitments for works and supply were secured with proposal submission which was made on July 28, 2010; HUDA was selected from a competitive bid process conducted by the US Embassy in Kabul and the Federal Assistance Award Agreement was signed on September 30, 2010.

The version 1 of the “MOU” was signed between Afghan Government Ministry of Higher Education and US Embassy on March 30, 2011; while final version was signed on June 30, 2011; NO WORKS OR EQUIPMENT PROCUREMENT was made prior to signing of ‘MOU’. The timeline of initiation of project works under the grant awards is as follows:

- Pre-construction works Site Allocation by the Four Universities Chancellors – July 1, 2011- August 6, 2011.
- Geotechnical Investigation and Soil Testing of the Four Universities was as follow

No	University Site	GI/ ST Period of Work
1	Kandahar University	July 5, 2011 to July 20, 2011
2	Nangarhar University	July 21, 2011 to July 26, 2011
3	Khost University	August 3, 2011 to August 12, 2011
4	Balkh University	August 18, 2011 to August 26, 2011

- Independent Review of Four Universities – October 16, 2011
- Preliminary Design of Four Universities – December, 2011
- Topographic Site Surveys of Four Universities – Jan, 2012
- Site Preparation, Mobilization and Construction of 3 University Project Management Offices (PMO) – Feb- April, 2012.
- Removal of Khost University from Award Agreement – May , 2012
- Media Equipment: (First Studio Package Offer) – September, 2011
(Second Studio Package Offer) – October, 2011
(Final Order Agreement) – December 7, 2011

As highlighted above and duly presented to the Audit Team with relevant documentation and cost supporting documents, no goods or services were procured or contracted or initiated prior to signing of MOU.

All costs incurred were specifically for relevant components toward performance of award and were initiated after due directive by the US Embassy Grant Officer to proceed. In addition copies of reports and contracts of all initiated works and goods referenced above were submitted to the US Embassy, Kabul as part of HUDA reporting responsibilities and copies submitted and explained to the Audit Team. Thus no unnecessary and unreasonable costs were incurred by HUDA and all project activities were properly initiated with awareness, consultation and approval of US Embassy, Kabul Grant Officer.

2013-11: Missing Documents in Personnel Files**HUDA Management Response**

All personnel documents to the best of our knowledge have the CVs; contracts, and relevant educational/ experience information.

The Management notes and recommendations of annual audit referred to for the years 2009, 2010 and 2011 were never presented and submitted to HUDA by HLB Audit team that conducted the audit after the completion of assignment.

All HUDA staffs were properly hired and are qualified and have demonstrated proven performance through the project life cycle resulting in the quality of project component deliverables to date.

2013-12: List of Adherence to Employment Policies**HUDA Management Response**

The finance manual has been revised accordingly, and the withholding salary policy removed.

2013-13: Excessive Cash Payments**HUDA Management Response**

All payments made in cash were properly documented and were made to selected and contracted vendors for relevant and approved goods and services for the performance of the three awards.

Payments in cash are far less than 10% of total amount of expenditures made in all the three awards.

HUDA Development Organization (HUDA)

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In all its activities in the three awards, HUDA Management and personnel have demonstrated competencies resulting to highly satisfactory performance of the implement of the projects and the achievement of relevant objectives.

2013-14: Lack of Segregation of Duties

HUDA Management Response

HUDA has appropriate division of labor and duties for all personnel in all the three awards; as a Non-Governmental Organization (NGO), we have maintained a cost-effective and best-value approach in utilizing professional personnel with broad experience and multi-task capabilities. Our approach has given us a unique edge in delivering high-impact donor-sponsored projects at reasonable management and administrative costs without compromising quality.

HUDA Management and staff have never been found to perform below satisfactory achievements in their functions in all three awards.

2013-15: Expenses in Excess of Budget

HUDA Management Response

HUDA Management effectively monitored the budget, the awards due to experience delays including weather and security challenges were caught up in economic price increases which affected the construction costs in Kabul, and costs of shipping of media equipment for the two awards which increased due to increased risks of goods airfreighted to Afghanistan; the Japan disaster and security charges for movement of goods in-land in Afghanistan.

The increase in personnel costs were due to extended completion periods. Also there were other extended construction works requested by the University (beneficiary) which was approved by the US Embassy Grant Officer.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Auditor's Rebuttal to HUDA Response to Findings

For the Period July 15, 2010 to December 31, 2012

HUDA disagreed with 12 of the 15 findings presented in this report. We have reviewed its management response and offer the following rebuttal for each finding to which HUDA disagreed.

2013-1: Lack of Competitive Bidding Process

Evidence of the competitive procurement process was not provided to us during the fieldwork portion of the audit. Our recommendation remains unchanged.

2013-3: Suspicious Payments to Unidentified Individuals

HUDA did not clarify why the signature on the Acknowledgement of Receipt was different from other documentation. In addition, HUDA did not explain why payment of the check to the vendor was signed, approved and cashed by the HUDA Project Manager instead of the vendor. Our recommendation remains unchanged.

2013-4: Cost Claimed to the Awards not Recorded in Underlying Accounting Records

HUDA did not clarify nor provide documentation to support that the questioned transactions were recorded in the underlying accounting records. Our recommendation remains unchanged.

2013-5: Lack of Adequate Record Retention in the Procurement Cycle

The missing documentation was not provided prior to the completion of audit fieldwork. Additionally, approval from the U.S. Embassy for reasonableness of cost is not sufficient support to determine the allowability of costs incurred. Our recommendation remains unchanged.

2013-6: Salaries Paid in Cash and Missing Supervisory Approval for Timesheets

The timesheets did not contain a supervisor's approval evidencing the hours reported were chargeable to the awards. Our recommendation remains unchanged.

2013-7: Missing Documentation of Competitive Bid Process and Costs Appear Unreasonable

Adequate documentation was not provided to support the award of a contract as a sole source procurement. Our recommendation remains unchanged.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Auditor's Rebuttal to HUDA Response to Findings

(Continued)

2013-8: Audit Cost for Period Prior to the Award

The audit costs were deemed ineligible as they related to a period prior to the beginning of the period of performance. In addition, the awards are subjected to the US Department of State's Standard Overseas Terms and Conditions which clearly stated under Section 2, Order of Precedence:

"In the event of any inconsistency between provisions of the award, the inconsistency shall be resolved by giving precedence in the following order:

- Applicable laws and statutes of the United States, including any specific legislative provisions mandated in the statutory authority for the award.
- Standard Terms and Conditions
- Bureau/Post Award Specific Terms and Conditions
- Other documents and attachments"

OMB Circular A-122 is a Federal regulation applicable to non-profit organizations which supersedes all other applicable requirements. Our recommendation remains unchanged.

2013-9: Lack of Adequate Internal Controls Surrounding Cash Disbursements

HUDA states in its response that its internal controls were adequate throughout the audit period. The evidence reviewed in support of the costs tested clearly demonstrates a lack of adequate controls surrounding cash disbursement. Our recommendation remains unchanged.

2013-10: Initiation of Work Before Signing of Memorandum of Understanding (MOU)

HUDA is correct in its response that the costs for technical design, soil testing and mobilization for Khost University were not incurred prior to the signing of the MOU. The condition of the finding has been revised to clarify this fact. However, given the scope of the project was reduced to remove Khost University, all costs associated with this University cannot be charged to the award. Our recommendation remains unchanged.

2013-11: Missing Documents in Personnel Files

The missing documents were not provided for review prior to completion of the fieldwork portion of the audit. Our recommendation remains unchanged.

HUDA DEVELOPMENT ORGANIZATION

Financial Audit of Costs Incurred under
Federal Assistance Awards S-AF200-10-GR-146, S-AF200-10-GR-147
and S-AF200-10-GR-245

Auditor's Rebuttal to HUDA Response to Findings

(Continued)

2013-13: Excessive Cash Payments

HUDA states that cash payments represent less than 10% of the total costs incurred and that its controls surrounding cash payments were adequate. However, no documentation was provided to support that the internal controls surrounding cash payments safeguard assets and ensure that payments are only made to authorized individuals and/or vendors. Furthermore, this finding was also identified in HUDA's audits for the years ended December 31, 2009, 2010 and 2011. Our recommendation remains unchanged.

2013-14: Lack of Segregation of Duties

HUDA indicates in its response that it has adequate segregation of duties. However, no evidence was provided with the response to indicate that the incompatible functions identified in the finding were not performed by the same individual, or that adequate compensating controls existed. Our recommendation remains unchanged.

HUDA DEVELOPMENT ORGANIZATION
 Financial Audit of Costs Incurred under
 Federal Assistance Award SAF-200-10-GR 146

Individual Grant Accountability Statement

For the period July 15, 2010 through December 31, 2012

			<u>Questioned Costs</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>
Revenues:				
SAF-200-10-GR 146	<u>\$ 2,674,721</u>	<u>\$ 2,674,577</u>	<u>\$ -</u>	<u>\$ -</u>
Total revenues	<u>2,674,721</u>	<u>2,674,577</u>	<u>-</u>	<u>-</u>
Costs incurred:				
Personnel	349,892	380,621	21,011	137,765
Travel	19,126	19,126	-	-
Equipment	688,732	735,719	32,126	-
Construction work and supplies	1,554,971	1,529,237	-	624,019
Indirect costs	<u>62,000</u>	<u>65,647</u>	<u>3,992</u>	<u>21,169</u>
Total costs incurred	<u>2,674,721</u>	<u>2,730,350</u>	<u>57,129</u>	<u>782,953</u>
Outstanding fund balance (deficit)	<u>\$ -</u>	<u>\$ (55,773)</u>	<u>\$ (57,129)</u>	<u>\$ (782,953)</u>

HUDA DEVELOPMENT ORGANIZATION
 Financial Audit of Costs Incurred under
 Federal Assistance Award SAF-200-10-GR 147

Individual Grant Accountability Statement

For the period July 15, 2010 through December 31, 2012

			<u>Questioned Costs</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>
Revenues:				
SAF-200-10-GR 147	<u>\$ 2,634,494</u>	<u>\$ 2,634,494</u>	<u>\$ -</u>	<u>\$ -</u>
Total revenues	<u>2,634,494</u>	<u>2,634,494</u>	<u>-</u>	<u>-</u>
Costs incurred:				
Personnel	330,562	366,800	35,472	137,740
Travel	5,986	5,986	-	-
Equipment	688,732	735,263	45,559	4,000
Construction work and supplies	1,547,214	1,583,286	35,309	87,099
Indirect costs	<u>62,000</u>	<u>59,499</u>	<u>-</u>	<u>6,642</u>
Total costs incurred	<u>2,634,494</u>	<u>2,750,834</u>	<u>116,340</u>	<u>235,481</u>
Outstanding fund balance (deficit)	<u>\$ -</u>	<u>\$ (116,340)</u>	<u>\$ (116,340)</u>	<u>\$ (235,481)</u>

HUDA DEVELOPMENT ORGANIZATION
Financial Audit of Costs Incurred under
Federal Assistance Award SAF-200-10-GR 245

Individual Grant Accountability Statement

For the period July 15, 2010 through December 31, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>	
			<u>Ineligible</u>	<u>Unsupported</u>
Revenues:				
SAF-200-10-GR 245	<u>\$ 8,374,239</u>	<u>\$ 2,093,560</u>	<u>\$ -</u>	<u>\$ -</u>
Total revenues	<u>8,374,239</u>	<u>2,093,560</u>	<u>-</u>	<u>-</u>
Costs incurred:				
Personnel	342,500	241,950	-	41,950
Travel	30,000	24,633	-	5,747
Equipment	3,224,045	644,809	-	644,809
Construction work and supplies	4,290,114	546,070	-	475,678
Other direct costs	431,424	7,947	-	-
Indirect costs	<u>56,156</u>	<u>167,854</u>	<u>-</u>	<u>45,015</u>
Total costs incurred	<u>8,374,239</u>	<u>1,633,263</u>	<u>-</u>	<u>1,213,199</u>
Outstanding fund balance (deficit)	<u>\$ -</u>	<u>\$ 460,297</u>	<u>\$ -</u>	<u>\$ (1,213,199)</u>

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- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202