

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-29 Financial Audit

USAID's Food Insecurity Response for Urban
Populations Program: Audit of Costs Incurred by
CARE International



JANUARY
2014



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 28, 2014

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

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

This letter transmits the results of our audit of costs incurred by CARE International under a cooperative agreement with the U.S. Agency for International Development (USAID) to provide support for the Food Insecurity Response for Urban Populations Program.¹ The audit covered the period March 8, 2009, to November 30, 2011, and was performed by Crowe Horwath LLP. It covered \$59,964,229 in expenditures.

The Food Insecurity Response for Urban Populations Program was designed to promote temporary employment and income to targeted populations by implementing cash-for-work activities in Kabul and its suburbs.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of CARE International's Fund Accountability Statement;²
- determine and report on whether CARE International has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in CARE International'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 Crowe Horwath LLP's audit results and found them to be in accordance with generally accepted government auditing standards.

Crowe Horwath LLP issued an unmodified opinion on the fairness of the presentation of the Fund Accountability Statement.³ Crowe Horwath LLP did not identify any open corrective actions from prior audits that pertained to the program or deficiencies in internal controls. The audit found one instance of noncompliance that was the result of the late submission of the agreement's final federal financial report, but this finding did not prompt Crowe Horwath LLP to question any costs.

¹ USAID's Cooperative Agreement 306-A-00-09-00510.

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.

³ An "unmodified opinion" is the clarified term for an "unqualified opinion" in the Auditing Standards Board's *Codification of Statements on Auditing Standards*. An unmodified opinion states that the financial statement presents fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally accepted accounting principles.

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

- 1. Advise CARE International to address the one compliance finding 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.

A handwritten signature in black ink, appearing to read 'John F. Sopko', with a long horizontal flourish extending to the right.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

CARE International in Afghanistan
Fund Accountability Statement
Food Insecurity Response for Urban Populations Program
For the Period March 8, 2009, through November 30, 2011
(With Independent Auditor's Report Thereon)

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TRANSMITTAL LETTER

December 30, 2013

To the Board of Directors of CARE International in Afghanistan
Shar e Naw, Haji Yaqoob Square
Kabul, Afghanistan

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of CARE International in Afghanistan's ("CARE") cooperative agreement with the United States Agency for International Development funding the Food Insecurity Response for Urban Populations ("FIRUP") program.

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

When preparing our report, we considered comments, feedback, and interpretations provided by CARE and the Office of the Special Inspector General for Afghanistan Reconstruction both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's final written response has also been incorporated into the final report as **Appendix A**.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of CARE's FIRUP project.

Sincerely,

A handwritten signature in black ink that reads "John C. Weber".

John Weber, CPA, Partner
Crowe Horwath LLP

www.crowehorwath.com

SUMMARY

Background

CARE International in Afghanistan (“CARE”) entered into a cooperative agreement with the United States Agency for International Development (“USAID”) to provide short-term cash-for-work opportunities to help promote temporary employment and income in targeted areas of Afghanistan. The intended effects of the program – entitled the “Food Insecurity Response for Urban Populations Program” (“FIRUP”) - were to reduce food insecurity and to promote stability. The cooperative agreement – 306-A-00-09-00510 – incorporated an initial ceiling price of \$25,000,000 and a period of performance of March 8, 2009, through March 7, 2010. Through subsequent modifications to the cooperative agreement, the final completion date was established as November 30, 2011, with an obligation amount of \$59,964,229. CARE reported that \$59,964,229 was expended on project activities during the project’s period of performance.

Throughout the period in which work was performed in the Kabul region, CARE worked with program participants, USAID, and various contractors to deliver the requested project scope. As reported in CARE’s final narrative report, the FIRUP project results (unaudited by Crowe) included, but were not limited to:

- Over \$19 million in financial resources having been infused into the region to those targeted by the program;
- 89,324 individuals benefitting from the program over a 32.5 month period;
- Culverts constructed under the project linked areas of the district giving approximately 2,000 families better access to the city and various services;
- 14,691 women engaged in project activities; and
- Eleven studies were completed over the course of the program’s life to help understand the program’s impact and to identify areas of greater emphasis for future food security projects.

Project work concluded in November 2011.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of CARE’s FIRUP project.

Objectives Defined by SIGAR

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

Audit Objective 1 – Internal Controls

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

Audit Objective 2 – Compliance

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

Audit Objective 3 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the fund accountability statement.

Audit Objective 4 – Fund Accountability Statement

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

Scope

The scope of the audit included the period March 8, 2009, through November 30, 2011, for the FIRUP project. The audit was limited to those matters and procedures pertinent to the cooperative agreement that could have a direct and material effect on the Fund Accountability Statement (“FAS”) and evaluation of the presentation, content, and underlying records of the FAS. The audit included reviewing the financial records that support the FAS to determine if there were material misstatements and if the FAS were presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Eligibility;
- Equipment and Real Property Management;
- Period of Availability of Federal Funds;
- Procurement;
- Reporting;
- Subrecipient Monitoring; and
- Special Tests and Provisions, including matters pertaining to the vetting of contractors and beneficiaries to determine if they are or were suspected of potentially supporting or funding terrorist activities.

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the FAS, tested compliance and considered the auditee’s internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit findings.

For purposes of meeting Audit Objective 1 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by CARE. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 2 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the cooperative agreement. Crowe identified – through review and evaluation of the cooperative agreement executed by and between CARE and USAID, the Code of Federal Regulations (“CFR”), and applicable circulars issued by the United States Office of Management and Budget (“OMB”) – the criteria against which to test the FAS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, cash drawdowns requests submitted to USAID, procurements, cash disbursements, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess CARE's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements (“NICRA”), associated restrictions and limitations established within the NICRA, and whether costs were treated consistently as direct or indirect charges.

To obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action as per Audit Objective 3, Crowe inquired of CARE regarding prior audits and reviews. Reports from three prior audits conducting in accordance with OMB Circular A-133 were provided along with one report issued by SIGAR. We reviewed the corrective action taken and considered the actions to be sufficient for purposes of addressing the matters pertaining to the FIRUP project.

With regard to Audit Objective 4 pertaining to the FAS, transactions were selected from the financial records underlying the FAS and the transactions were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the FAS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

Due to the location and nature of the project work and certain vendors and individuals who supported the project still residing in Afghanistan, certain audit procedures were performed on-site in Afghanistan as deemed necessary.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified one finding because it met one or more of the following criteria: (1) significant deficiency in internal control, (2) material weakness in internal control, (3) deficiency that resulted in questioned costs, and/or (4) noncompliance with rules, laws, regulations, or the terms and conditions of the cooperative agreement. Other matters that were identified during the course of the audit, but were not classified as findings, were communicated verbally to CARE.

Crowe also reported on both CARE's compliance with the applicable laws, rules, regulations, and terms and conditions of the cooperative agreement and the internal controls over compliance. No material weaknesses in internal control, significant deficiencies in internal control, or questioned costs were identified. One instance of material noncompliance was reported.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to CARE's financial performance under the cooperative agreement. CARE provided a copy of four reports resulting from audits conducted in accordance with OMB Circular A-133 and one audit conducted by SIGAR (SIGAR Audit 11-11 dated June 29, 2011). Six findings were reported by the external auditors that were pertinent to the FIRUP project and could have a material effect on the FAS. None of the findings were repeated within Crowe's audit report or considered to have been inadequately addressed.

Crowe issued an unmodified opinion on the FAS.

Summary of Management Comments

CARE agreed with the audit finding and recommendation.

References to the Appendix

The auditor's reports are supplemented by one appendix. **Appendix A** includes the Views of Responsible Officials, which are management's responses to the finding presented within the report.

INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

To the Board of Directors of CARE International in Afghanistan
Shar e Naw, Haji Yaqoob Square
Kabul, Afghanistan

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

Report on the Fund Accountability Statement

We have audited, 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 CARE International in Afghanistan ("CARE") and related notes to the Statement, with respect to the Food Insecurity Response for Urban Populations Program as funded by cooperative agreement number 306-A-00-09-00510 for the period March 8, 2009, through November 30, 2011, and have issued our report thereon dated December 27, 2013.

Management's Responsibility for the Fund Accountability Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix V of solicitation ID05130041 (the "Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

(Continued)

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

Opinion

In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, program revenues and costs incurred for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The schedule was prepared by CARE in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix V of the Contract to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated December 27, 2013, on our consideration of CARE's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.


Crowe Horwath LLP

December 27, 2013
Washington, D.C.

**CARE International in Afghanistan
Cooperative Agreement No. 306-A-00-09-00510
Food Insecurity Response for Urban Populations
FUND ACCOUNTABILITY STATEMENT
March 8, 2009, through November 30, 2011**

| | <i>Questioned Costs</i> | | | | |
|---------------------------------|-------------------------|---------------|------------|-------------|-------|
| | Budget | Actual | Ineligible | Unsupported | Notes |
| <i>Revenues</i> | | | | | |
| Award No. 306-A-00-09-00510 | \$ 59,964,229 | \$ 59,964,229 | | | 4 |
| Total Revenue | \$ 59,964,229 | \$ 59,964,229 | | | |
| <i>Costs Incurred</i> | | | | | |
| Expat Staff Salaries | \$ 1,017,570 | \$ 1,017,570 | \$ - | \$ - | |
| Expat Staff Fringe Benefits | 306,441 | 306,441 | - | - | |
| National Staff Salaries | 7,417,706 | 7,417,706 | - | - | |
| National Staff Fringe Benefits | 2,901,623 | 2,901,623 | - | - | |
| Overseas Allowances | 875,767 | 875,767 | - | - | |
| Travel & Vehicle Operation | 2,188,730 | 2,188,730 | - | - | |
| Equipment | 406,624 | 406,624 | - | - | |
| Supplies | 271,936 | 271,936 | - | - | |
| Project Activities | 36,508,089 | 36,508,089 | - | - | |
| Other Costs | 2,240,908 | 2,240,908 | - | - | |
| Indirect Costs | 5,828,835 | 5,828,835 | - | - | |
| Total Costs Incurred | \$ 59,964,229 | \$ 59,964,229 | \$ - | \$ - | 6 |
| <i>Outstanding Fund Balance</i> | <u>\$ -</u> | <u>\$ -</u> | | | |

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

CARE International in Afghanistan
NOTES TO THE FUND ACCOUNTABILITY STATEMENT
For the Period March 8, 2009, through November 30, 2011

Note 1. Basis of Presentation

The accompanying Fund Accountability Statement (the "Statement") includes revenues and costs incurred under cooperative agreement number 306-A-00-09-00510 for the Food Insecurity Response for Urban Populations for the period March 8, 2009, through November 30, 2011. Because the Statement presents only a selected portion of the operations of CARE International in Afghanistan, it is not intended to and does not present the financial position, changes in net assets, or cash flows of CARE International in Afghanistan. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal award. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the accompanying Fund Accountability Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

Note 3. Foreign Currency Conversion Method

Revenue and expenses are translated into U.S. dollars at the actual conversion rate in effect at the time U.S. dollars are converted into Afghani. The rate remains in effect until the next conversion.

Note 4. Revenues

CARE recognizes revenue when funds are expended. Therefore, revenues are set equal to the total expenses of \$59,964,229. CARE's total cash received from USAID is \$59,964,229, which is equal to the total expenditures.

Note 5. Costs Incurred by Budget Category

The budget line items referenced on the FAS reflect those amounts approved by USAID in the latest amendment of the obligated budget as noted in Modification number 11 dated August 11, 2013.

Note 6. Fund Balance

The fund balance of \$0 presented on the Statement represents the difference between revenues earned and costs incurred and indicates that additional funds are neither expected to be received from the U.S. Government nor are expected to be paid to the U.S. Government by CARE.

Note 7. Currency

All amounts presented are shown in United States dollars.

Note 8. Program Status

The cooperative agreement is closed. In line with CARE's fiscal year 2012 negotiated indirect cost rate agreement ("NICRA") finalization in June 2013, CARE submitted the final Federal Financial Report (SF-425) and closeout reports to USAID in July 2013.

Note 9. Questioned Costs

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

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

Note 10. Subsequent Events

CARE Management has performed an analysis of the activities and transactions subsequent to the March 8, 2009, through November 30, 2011, period of performance. Management has performed its analysis through December 27, 2013.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors of CARE International in Afghanistan
Shar e Naw, Haji Yaqoob Square
Kabul, Afghanistan

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

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 CARE International in Afghanistan ("CARE") and related notes to the Statement, with respect to the Food Insecurity Response for Urban Populations Program as funded by cooperative agreement number 306-A-00-09-00510 for the period March 8, 2009, through November 30, 2011, and have issued our report thereon dated December 27, 2013.

Internal Control over Financial Reporting

CARE's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the task order; and transactions are recorded properly to permit the preparation of the Fund Accountability Statement in conformity with the basis of presentation described in Note 1 to the Fund Accountability Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Fund Accountability Statement for the period March 8 2009, through November 30, 2011, we considered CARE's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of CARE's internal control. Accordingly, we do not express an opinion on the effectiveness of CARE's internal control.

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. 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.

(Continued)

Our consideration of internal control was for the limited purpose described in the second paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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.

Restriction on Use

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



Crowe Horwath LLP

December 27, 2013
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors of CARE International in Afghanistan
Shar e Naw, Haji Yaqoob Square
Kabul, Afghanistan

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

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 CARE International in Afghanistan ("CARE") and related notes to the Statement, with respect to the Food Insecurity Response for Urban Populations Program as funded by cooperative agreement number 306-A-00-09-00510 for the period March 8, 2009, through November 30, 2011, and have issued our report thereon dated December 27, 2013.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement are the responsibility of the management of the CARE International in Afghanistan.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of CARE's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of fund accountability 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 one instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described as 2013-01 in the accompanying Schedule of Findings and Questioned Costs.

CARE's Response to Findings

CARE's response to the finding identified in our audit is attached as Appendix A to this report. We did not audit CARE's response and, accordingly, we express no opinion on it.

(Continued)

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results 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 and compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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



Crowe Horwath LLP

December 27, 2013
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2013-01: Reporting

Non-Compliance

Criteria: In accordance with the provisions of 22 CFR Parts 226.51 and 226.52, final reports are due within 90 calendar days of the award year.

Condition: CARE submitted the final federal financial report in July 2013, which was more than 90 days following the November 2012 completion of the project.

Questioned costs: None.

Effect: Failure to submit reports to USAID in a timely manner may have inhibited the Agency's ability to monitor the project to the extent desired.

Cause: CARE withheld submission of the final report pending finalization of the negotiated indirect cost rate agreement (NICRA), which would prompt subsequent adjustments.

Recommendation: We recommend that CARE incorporate, within its reporting procedures, the following instructions to project financial staff members:

- Interim final financial reports should be submitted to funding agencies with a note or memorandum stating that additional adjustments may be needed following finalization of the NICRA, when appropriate and necessary;
- Interim final financial report should be submitted by the filing deadline for the final federal financial report; and
- Staff should notify the funding agency of the applicable adjustments upon receipt of the final NICRA.

SECTION II: SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Cooperative Agreement number 306-A-00-09-00510 funding the FIRUP project was included within the scope of the audits conducted in accordance with OMB Circular A-133 for the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012. The FIRUP project was also incorporated within one audit completed by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR"). Copies of the audits were provided to Crowe by CARE International in Afghanistan ("CARE"). The audit reports included six findings relevant to the FIRUP project and that could have a material effect on the Fund Accountability Statement. These findings and associated corrective action are summarized below:

Audit Report: Consolidated Financial Statements and Other Financial Information and Reports and Schedules Related to Office of Management and Budget Circular A-133 (for the years ended June 30, 2012 and 2011)

Finding 2012-05

Issue: CARE had exceeded the approved indirect cost program budget by \$10,343.

Status: CARE credited the program for the indirect cost overage. This matter is considered to be resolved and is not repeated in the audit report.

Finding 2012-06

Issue: The allocation of accrued salary costs for shared support staff was incorrectly calculated, which resulted in \$4,782 in questioned costs.

Status: CARE credited the FIRUP project for the \$4,782 in costs. This matter is considered to be resolved and is not repeated in the audit report.

Finding 2011-09

Issue: CARE must verify that a company or organization has not been suspended or debarred prior to entering into a transaction, and assemble a list of vendors to be sent to the CARE headquarters. Four vendors (unidentified in the audit report) were not checked against the Excluded Parties List System and Office of Foreign Assets Control websites and reported to CARE headquarters.

Status: CARE implemented a procedure that included conducting reviews of anti-terrorism list and suspension and debarment screening software (i.e., the Bridger system) to screen vendors. We selected a sample of 60 procurements and obtained copies of the Bridger search results for each party, which indicated that the procedure had been implemented. This finding is considered to be resolved and is not repeated in the audit report.

Finding 2011-10

Issue: Contracts, purchase orders, and other procurement transactions require approval by authorized personnel. In one instance, a purchase order that required dual signatures was only signed by one individual.

Status: To conduct testing of procurement controls, we selected a random sample of 60 procurements and obtained documentation of the required purchase order approvals. No exceptions were noted. This finding is considered to be resolved and is not repeated in the audit report.

Audit Report: Consolidated Financial Statements and Other Financial Information and Reports and Schedules Related to Office of Management and Budget Circular A-133 (for the years ended June 30, 2009 and 2008)

Finding 2009-12

Issue: CARE charged the FIRUP project based on budgeted security expenses as opposed to actual costs incurred. \$128,262 was questioned as a result of this matter.

(Continued)

Status: CARE reversed \$130,246 in total charges based on three security transactions noted in response to the finding. The reversal of the charges resulted in the costs being removed from the project ledger and funded by other resources. Thus, the U.S. Government was reimbursed for the associated costs in question. This finding is considered to be resolved and is not repeated in the audit report.

Audit Report: SIGAR Audit 11-11, USAID's Kabul Community Development Program Largely Met the Agreement's Terms, But Progress Toward Long-Term Goals Needs to be Better Tracked

Issue 1: CARE failed to complete several required studies, including a market analysis, analysis of gender sensitive programming, and a comprehensive stakeholder analysis.

Status: We requested and obtained copies of the studies funded by the FIRUP project. This finding is considered to be resolved and is not repeated in the audit report.

Issue 2: USAID's third party monitoring and evaluation contractor noted certain deficiencies in internal control over cash disbursement. SIGAR recommended that CARE address the internal control matters.

Status: This matter is considered to be resolved and is not repeated in the audit report. USAID indicated - within its response dated June 23, 2011, to SIGAR's report - that the Mission feels CARE has addressed the observations highlighted in the third party monitoring party. In addition, we conducted procedures to determine if internal controls over cash management were implemented as designed. No exceptions were noted during our audit with regard to cash management and cash disbursement.



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December 27, 2013

John Weber, CPA, Partner
Crowe Horwath LLP
1325 G Street NW, Suite 500
Washington, D.C. 20005

Dear Mr. Weber,

With reference to the audit report for USAID funding for Food Insecurity for Urban Populations (FIRUP) project, Finding 2013-01 Reporting, CARE Management agrees with the recommendation.

Sincerely,

Lora Wuennenberg
Associate Vice President
Donor Compliance Assurance

cc: Helene Gayle
Jon Mitchell
Peter Buijs

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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- Phone DSN Afghanistan: 318-237-3912 ext. 7303
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