

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-59 Financial Audit

Department of State's Mine Clearance,
Explosive Ordnance Disposal, and Mine
Awareness Activities in Afghanistan: Audit of
Costs Incurred by the Organization for Mine
Clearance and Afghan Rehabilitation



MAY
2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

Between April 2010 and March 2014, the Department of State's Office of Weapons Removal and Abatement awarded nine grants totaling over \$15.6 million to the Organization for Mine Clearance and Afghan Rehabilitation (OMAR). The principal objectives of these grants were to provide safe living environments for inhabitants and returnees in rural and urban areas in Afghanistan, and to create improved circumstances for the return of displaced people. For example, one grant sought to clear a total of 2,316,217 square miles of mine-contaminated land in the provinces of Kabul, Nangarhar, and Herat, where 18 communities were affected by landmines and unexploded ordnance.

SIGAR's financial audit, performed by Davis and Associates Certified Public Accountants, PLLC (Davis), reviewed \$15,668,124 in expenditures, of which \$15,666,000 was charged to the grants between April 1, 2010, and March 31, 2014. The remaining \$2,124 was not billed to the U.S. government. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in OMAR's internal controls related to the grants; (2) identify and report on instances of material noncompliance with the terms of the grants and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether OMAR had taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of OMAR's Special Purpose Financial Statement. See Davis's report for the precise audit objectives.

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

May 2015

Department of State's Mine Clearance, Explosive Ordnance Disposal, and Mine Awareness Activities in Afghanistan: Audit of Costs Incurred by the Organization for Mine Clearance and Afghan Rehabilitation

SIGAR 15-59-FA

WHAT THE AUDIT FOUND

Davis and Associates Certified Public Accountants, PLLC (Davis) identified one material weakness in the Organization for Mine Clearance and Afghan Rehabilitation's (OMAR) internal controls and three instances of material noncompliance with laws, regulations, or the terms and conditions of the grants. OMAR did not comply with federal procurement policies. Specifically, Davis noted that OMAR did not provide support for a competitive procurement process for \$2,156,695 for vehicle rentals. Similarly, OMAR had not documented a competitive procurement process for the provision of security protection teams and could not provide quotes, the scope of work, or proof of a \$2,830 payment. Additionally, Davis reported that OMAR did not follow its own policies for minimizing the use of cash by establishing a maximum amount for a cash transaction, which increases the potential for theft and the misuse of funds. Finally, Davis noted that OMAR did not properly deduct withholding taxes from payments to local vendors and contractors.

As a result of the internal control weakness and instances of material noncompliance, Davis identified \$2,159,525 in unsupported questioned costs—costs not supported with adequate documentation or that did not have the required prior approval. Davis did not identify any ineligible costs—costs prohibited by the agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Contractual	\$0	\$2,156,695	\$2,156,695
Other	\$0	\$2,830	\$2,830
Totals	\$0	\$2,159,525	\$2,159,525

Davis obtained and reviewed prior audit reports and other assessments that could have a material impact on the Special Purpose Financial Statement. Davis identified three prior audit findings and determined that OMAR had properly addressed two of the findings with respect to the project under audit. OMAR has not properly addressed a prior audit finding related to documenting the performance of a competitive bid process. A similar finding was identified in this audit.

Davis issued a modified opinion on OMAR's Special Purpose Financial Statement, noting that it did not exclude a material amount of unallowable costs, which totaled \$2,159,525, presented in the statement.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the Department of State Grants Officer:

1. **Determine the allowability of and recover, as appropriate, \$2,159,525 in questioned costs identified in the report.**
2. **Advise OMAR to address the report's one internal control finding.**
3. **Advise OMAR to address the report's three noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 11, 2015

The Honorable John F. Kerry
Secretary of State

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

We contracted with Davis and Associates Certified Public Accountants, PLLC (Davis) to audit the costs incurred by the Organization for Mine Clearance and Afghan Rehabilitation (OMAR) under nine Department of State grants.¹ Davis's audit covered \$15,668,124 in expenditures, of which \$15,666,000 was charged to the grants between April 1, 2010, and March 31, 2014. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the Department of State Grants Officer:

- 1. Determine the allowability of and recover, as appropriate, \$2,159,525 in questioned costs identified in the report.**
- 2. Advise OMAR to address the report's one internal control finding.**
- 3. Advise OMAR to address the report's three noncompliance findings.**

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

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-056)

¹ The Department of State awarded grants numbered SPMWRA10-GR-0006, SPMWRA10-GR-0094, SPMWRA10-GR-0127, SPMWRA11-GR-0014, SPMWRA12-GR-1006, SPMWRA12-GR-1111, SPMWRA12-GR-1012, SPMWRA13-GR-1013, and SPMWRA13-GR-1022 to OMAR to support the removal of landmines and unexploded ordnance in Afghanistan.

DAVIS AND ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS, PLLC

FINANCIAL AUDIT

OF

COSTS INCURRED UNDER GRANT AGREEMENT NUMBERS
SPMWRA10-GR-0006, SPMWRA10-GR-0094, SPMWRA10-
GR-0127, SPMWRA11-GR-0014, SPMWRA12-GR-1006,
SPMWRA12-GR-1111, SPMWRA13-GR-1012, SPMWRA13-
GR-1013 AND SPMWRA13-GR-1022 WITH THE ORGANIZATION
FOR MINE CLEARANCE AND AFGHAN REHABILITATION
FOR THE PERIOD APRIL 1, 2010 TO MARCH 31, 2014

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April 22, 2015

TRANSMITTAL LETTER

To: Mr. Charles Botwright
Office of Special Inspector General for Afghanistan Reconstruction

From: Davis and Associates Certified Public Accountants, PLLC

Subject: Financial Audit of Costs Incurred under Grant Agreement Numbers SPMWRA10-GR-0006, SPMWRA10-GR-0094, SPMWRA10-GR-0127, SPMWRA11-GR-0014, SPMWRA12-GR-1006, SPMWRA12-GR-1111, SPMWRA13-GR-1012, SPMWRA13-GR-1013 and SPMWRA13-GR-1022 with the Organization for Mine Clearance and Afghan Rehabilitation

This letter transmits the final audit report of the subject effort. We issued a modified opinion on the fairness of the presentation of the Special Purpose Financial Statement. Our audit disclosed \$2,159,525 of unsupported costs that were required to be questioned in the Special Purpose Financial Statement. Our audit detected three instances of material non-compliance; and one instance of material weakness in Internal Control.

Davis & Associates

Davis and Associates Certified Public Accountants, PLLC

211 N. Union Street

Suite 100

Alexandria, VA 22314

EXECUTIVE SUMMARY

Background

The Department of State's Bureau of Political-Military Affairs' Office of Weapons Removal and Abatement (PMWRA) awarded a series of grants totaling over \$15 million to the Mine Clearance and Afghan Rehabilitation (OMAR) to provide support for the removal of land mines and unexploded ordnance in Afghanistan.

Mine Clearance and Afghan Rehabilitation (OMAR) is an Afghan nonprofit organization that conducts mine clearance, explosive ordnance disposal and mine awareness in various parts of the country.

In 1990 the Organization for Mine Awareness (OMA) was established purely as a humanitarian organization working mainly for the United Nations. The purpose was to help make Afghanistan safe from the threat of mines and other unexploded ordnances through threat avoidance education, threat prevention and threat elimination. Mine awareness classes have been conducted in local meeting places, such as schools, mosques and bazaars, resulting in exposure to over 9.3 million people so far. In August 1992 OMAR was brought into being and continued Mine Awareness work under the management of the same Director. The enormous task of clearing Afghanistan of the astronomical amount of mines and UXO clearly justified the need for another mine clearance technical organization. Subsequently, in August 1992, OMAR expanded its field of operation to mine clearance and became known as the Organization for Mine clearance and Afghan Rehabilitation (OMAR). OMAR operates all over Afghanistan through its field/site offices in Herat, Kandahar, Mazar, Kabul, Helmand, Parwan and Nangarhar provinces of the country, with the main office being in the capital of Afghanistan, Kabul.

The principal objectives of these grants, issued by the U.S. Department of State's (DoS) and PMWRA, were to provide a safe environment for Afghan habitants and returnees in urban and rural areas, thus providing the facility for the return of internally displaced people to their hometowns, normalization of local socio-economic conditions to pave the way for repatriation, resettlement and the rehabilitation of the country.¹ The total funded amount was \$15,666,000.

¹ Source – Statement of Work issued by DoS

The period subject to the audit was April 1, 2010 through March 31, 2014. During this period, OMAR incurred costs totaling \$15,668,124, \$2,124 of which was in excess of the funded value and not reimbursed by DoS.

Work Performed

Davis and Associates Certified Public Accountants, PLLC was engaged by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the OMAR project.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

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

Audit Objective 2 - 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 3 – Compliance

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

Audit Objective 4 – 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 special purpose financial statement.

Scope

We conducted our audit from October 28, 2014 through February 10, 2015. The audit covered Grant Agreement Numbers SPMWRA10-GR-0006 (April 1, 2010 to August 1, 2013); SPMWRA10-GR-0094 (August 1, 2010 to October 31, 2011); SPMWRA10-GR-0127 (September 1, 2010 to January 31, 2012); SPMWRA11-GR-0014 (April 1, 2011 to March 31, 2012); SPMWRA12-GR-1006 (April 1, 2012 to March 31, 2013); SPMWRA12-GR-1111 (September 28, 2012 to April 30, 2013); SPMWRA13-GR-1012 (April 1, 2013 to March 31, 2014); SPMWRA13-GR-1013 (April 1, 2013 to March 31, 2014); and SPMWRA13-GR-1022 (April 1, 2013 to March 31, 2014). The recipient was OMAR. The period covered under this audit was April 1, 2010 through March 31, 2014.

Methodology - Procedures Performed

Below are the documents that were used for the performance of this audit:

- The Grant Agreement Numbers SPMWRA10-GR-0006; SPMWRA10-GR-0094; SPMWRA10-GR-0127; SPMWRA11-GR-0014; SPMWRA12-GR-1006; SPMWRA12-GR-1111, SPMWRA13-GR-1012 SPMWRA13-GR-1013; and SPMWRA13-GR-1022 between DoS and OMAR.
- Contracts and subcontracts with third parties.
- The written procedures approved by DoS.
- 2 CFR 215 – *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations* (OMB Circular A-110)
- 2 CFR 230 – *Cost Principles for Non-Profit Organizations* (OMB Circular A-122)
- 48 CFR Chapter 6 – Department of State
- OMB Circular A-133 - *Audits of States, Local Governments and Non-Profit Organizations*
- All policies and procedures prepared by OMAR.

Our audit approach was significance and risk-based. Significance is the relative importance of a matter within the context it is being considered, including qualitative and quantitative factors.

Special Purpose Financial Statement

We examined OMAR's Special Purpose Financial Statement by budgeted line item under the nine grant agreements, including the budgeted amounts by category and major items. We reviewed to ensure that all costs incurred under the DoS-funded agreements were allocable, reasonable, properly supported and allowable, and properly included by OMAR in the Special Purpose Financial Statement by category and major item.

Internal Controls

Through inspection of documents, inquiry of personnel and observation of procedures, we obtained a sufficient understanding of OMAR and its environment, including its internal control, to assess the risk of material misstatement of the books and records of OMAR, whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.

Compliance with Laws and Regulations

We identified the significant provisions of laws and regulations to design relevant compliance-related procedures for the audit. We looked at those provisions (a) for which compliance could be objectively determined and (b) that had a direct and material effect on the Activity. Our audit included steps to allow us to detect all material instances of noncompliance, defined as instances that could have a direct and material effect on the Special Purpose Financial Statement.

Corrective Action on Prior Findings and Recommendations

We inquired of management as to whether or not any prior audit or compliance reviews had been performed with respect to the project under audit. We reviewed management's response and performed audit procedures to determine whether corrective actions were taken by management to address prior audit recommendations. The table below highlights the prior A-133 audits that were performed.

Table 1 – Prior Audits

Grant Agreement	Period Covered	Type of Opinion	Number of Findings
SPMWRA10-GR-0006	Period Ended March 31, 2011	Unmodified	3
SPMWRA10-GR-0094	Period Ended October 31, 2011	Unmodified	0
SPMWRA10-GR-0127	Period Ended January 31, 2012	Unmodified	0
SPMWRA11-GR-0014	Period Ended March 31, 2012	Unmodified	0
SPMWRA12-GR-1006	Period Ended March 31, 2013	Unmodified	0

Summary of Audit Results

Special Purpose Financial Statement

We issued a modified opinion on the fairness of the presentation of the Special Purpose Financial Statement. [See *Independent Auditor's Report on the Special Purpose Financial Statement*, Page 15]

We determined that there was an adequate accounting system in place to properly account for and classify costs incurred; however, OMAR did not properly exclude some unallowable costs. Our audit disclosed \$2,159,525 of costs that were required to be questioned in the Special Purpose Financial Statement. [See *Schedule of Detailed Audit Findings*, Page 22]

Table 2 - Summary of Findings and Questioned Costs

Finding Number	Description	Amount Questioned	Cumulative Amount Questioned
1	Unsupported – Vehicle Lease Costs	\$2,156,695	\$2,156,695
2	Unsupported – Security Costs	\$2,830	\$2,159,525

Internal Controls

Our audit detected one significant deficiency in Internal Control that we consider to be a material weakness. [See *Independent Auditor's Report on Internal Control*, Page 17]

Compliance with Laws and Regulations

Our audit detected three instances of material non-compliance that are required to be reported. [See *Independent Auditor's Report on Compliance*, Page 19]

Corrective Action on Prior Findings and Recommendations

Our audit determined that OMAR had properly addressed two of the three prior audit findings. [See *Status of Prior Audit Findings*, Page 21]

Management Response to Findings

We presented our findings to OMAR and requested a management response. OMAR provided written responses, which included additional documentation. We reviewed the written responses and examined the additional documentation. The management comments are included in [Appendix A](#); our responses to these comments are included in [Appendix B](#).

Exhibit I

The Organization for Mine Clearance and Afghan Rehabilitation Consolidated Special Purpose Financial Statement April 1, 2010 through March 31, 2014

	<u>Budget Amount</u>	<u>Actual for the Period</u>	<u>Unsupported Costs</u>	<u>Ineligible Costs</u>	<u>Notes</u>
Revenue	\$ 15,668,124	\$ 15,666,000	\$ -	\$ -	3
Total Revenue	<u>\$ 15,668,124</u>	<u>\$ 15,666,000</u>	<u>\$ -</u>	<u>\$ -</u>	
Costs Incurred					
Personnel	\$ 6,995,567	\$ 7,007,682	\$ -	\$ -	4
Fringe Benefits	\$ 530,845	\$ 518,982	\$ -	\$ -	4
Travel	\$ 73,505	\$ 26,057	\$ -	\$ -	4
Equipment	\$ 523,760	\$ 521,939	\$ -	\$ -	4
Supplies	\$ 263,010	\$ 241,271	\$ -	\$ -	4
Contractual	\$ 2,161,060	\$ 2,147,817	\$ 2,156,695	\$ -	4,A
Construction	\$ 1,200	\$ 1,257	\$ -	\$ -	4
Other	\$ 1,751,604	\$ 1,766,878	\$ 2,830	\$ -	4,B
Indirect Charges	\$ 3,365,448	\$ 3,332,243	\$ -	\$ -	4
Gain/(loss)	\$ 2,124	\$ 1,262	\$ -	\$ -	4
Amount Refunded to US-DoS	\$ -	\$ 102,739	\$ -	\$ -	4
Total Program Amount	<u>\$ 15,668,124</u>	<u>\$ 15,668,124</u>	<u>\$ 2,159,525</u>	<u>\$ -</u>	
Outstanding Fund Balance	<u>\$ 0</u>	<u>\$ (2,124²)</u>			

(The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement prepared by OMAR)

² This amount was covered by OMAR and was not billed to the U.S. Government.

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT³

Note 1 – Status and Operation

Please provide a description of the Auditee including:

- Date founded – 1ST October 1990
- Organization type – Non-Governmental Organization (NGO)
- Headquarters location – Near Ghazi Olympic Stadium, Chaman Hazuri Area, Kabul – Afghanistan
- Corporate History

In 1990 the Organization for Mine Awareness (OMA) was established purely as a humanitarian organization working mainly for the United Nations. The purpose was to help make Afghanistan safe from the threat of mines and other unexploded ordnance through threat avoidance education, threat prevention and threat elimination. Mine awareness classes have been conducted in local meeting places, such as schools, mosques and bazaars, resulting in exposure to over 9.3 million people so far. In August 1992 OMAR was brought into being and continued Mine Awareness work under the management of the same Director. The enormous task of clearing Afghanistan of the astronomical number of mines and UXO clearly justified the need for another mine clearance technical organization. Subsequently, in August 1992, OMAR expanded its field of operation to mine clearance and became known as the Organization for Mine clearance and Afghan Rehabilitation (OMAR). OMAR operates all over Afghanistan through its field/site offices in Herat, Kandahar, Mazar, Kabul, Helmand, Parwan and Nangarhar provinces of the country, with the main office being in the capital of Afghanistan, Kabul. The skill sets available through OMAR are extensive and include:

- Survey activities
- Mine and ERW clearance
- Mechanical mine clearance
- Mine Detection Dog teams
- Training for de-miners
- Mine Risk Education (MRE)
- Community Liaison and Development
- Vocational Training
- Health Services

³ Prepared by OMAR

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement includes costs incurred under Grant Agreement Numbers SPMWRA10-GR-0006, SPMWRA10-GR-0094, SPMWRA10-GR-0127, SPMWRA11-GR-0014, SPMWRA12-GR-1006, SPMWRA12-GR-1111, SPMWRA13-GR-1012, SPMWRA13-GR-1013 and SPMWRA13-GR-1022 implemented by the Organization for Mine Clearance and Afghan Rehabilitation for the period April 1, 2010 through March 31, 2014. Because the Statement presents only a selected portion of the operations of, it is not intended to and does not present the Balance Sheet, Statement of Net Income, or Cash Flows of Organization for Mine Clearance and Afghan Rehabilitation. The information in this Special Purpose Financial Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and is specific to Grant Agreement Numbers SPMWRA10-GR-0006, SPMWRA10-GR-0094, SPMWRA10-GR-0127, SPMWRA11-GR-0014, SPMWRA12-GR-1006, SPMWRA12-GR-1111, SPMWRA13-GR-1012, SPMWRA13-GR-1013 and SPMWRA13-GR-1022. Therefore, some amounts presented in this Special Purpose Financial Statement may differ from amounts presented in, or used in the preparation of, Organization for Mine Clearance and Afghan Rehabilitation Balance Sheet, Statement of Net Income, or Cash Flows.

Basis of Accounting

The Special Purpose Financial Statement has been prepared on the modified accrual basis of accounting whereby revenues are recognized in the period in which they become measurable and available, and expenses are recognized in the period in which the associated liability is incurred.

Foreign Currency Conversion Method

The operational currency in Afghanistan is the Afghani while staff benefits (salaries, medical allowance, hazards, pension, and part of food) are paid in US\$. Staff insurance premiums are paid in Pakistani Rupees. Presentation currency is the U.S. Dollar. Currency translations have been done on the following basis.

- Revenues – recorded in U.S. Dollars
- U.S. Dollars Expenditures – recorded in U.S. Dollars
- Afghanis Expenditures – recorded in Afghanis
- Pakistani Rupees Expenditures – recorded in Pakistani Rupees

- Afghanis and Pakistani Rupees Expenditures were converted into US\$ at average monthly exchange rates at which US\$ has been converted to Afghanis and Pakistan Rupees.

Average exchange rates for the period under audit:

- U.S. Dollar = [50.83] Afghani
- U.S. Dollar = [91.74] Pakistani Rupees

Note 3 – Revenues

Revenues are recognized when earned and properly invoiced to Department of State.

Note 4 – Major Cost Categories

Below are the major categories of costs expended under the grant agreements that are included within the budget lines on the Special Purpose Financial Statement.

Salaries

This cost category includes salaries, hazard allowance, medical allowance, pension and food allowance of the staff in the field and demining teams.

Fringe Benefits

This cost category includes the insurance premium for demining staff in the field as well as in demining teams.

Travel

This budget-line includes the cost of travel to and from the field for office staff as well as cost of evacuation and daily subsistence allowance (DSA).

Equipment

This budget category includes the cost of non-expendable equipment purchased for the field and office activities, such as demining equipment, vehicles, office equipment etc.

Supplies

This cost category includes stationery for offices & teams, medical supplies to demining teams and field supplies (soap, toilet paper, tissue papers, towels, cleaning liquids, air refresher etc).

Contractual

This budget category includes offices rental cost, third party liability expense, financial monitoring/audit cost, vehicle insurance third party, and vehicle rental cost.

Construction

This cost category includes the cost of any construction work done in the field or demining teams, such as facility for dogs, office for MDS staff, clinic for dogs & permanent kennels.

Other Direct Costs

Any other cost that does not fit into cost categories above are charged to the other direct cost category.

Examples include beddings for deminers, tents, water container, kitchen utensils, vehicle fuel & maintenance, field offices & equipment minor repairs, fuel for heating generators, utilities, team's telephone/communication charges etc.

Indirect Costs

This cost category includes headquarters cost, field offices & site offices costs.

Note 5 – Disposition of Donor Assets

OMAR policy at the end of each project is to return the goods to its donor, but being a demining operation, OMAR would prefer keeping the assets for use under its future projects.

OMAR only acquires the right of use. Ownership of the asset(s) shall remain with donor, which may revoke the right of use with immediate effect and demand prompt return of any or all asset(s) in fit condition subject only to normal wear and tear.

OMAR agrees that the asset(s) will be deployed to the duly authorized and responsible staff of OMAR throughout Afghanistan and in support of demining activities.

OMAR shall be solely responsible for the asset(s), their conditions and their use, including compliance with

regulations or laws for use in the locations indicated and any third party claims related to such use.

OMAR shall properly operate and maintain the asset(s) and bear all costs associated therewith.

OMAR shall develop a maintenance plan for the assets.

OMAR shall provide for appropriate personnel to operate the asset(s). Any such personnel shall be duly qualified for operating the asset(s) and be licensed if so required in the territory of operation. OMAR shall also provide appropriate death and disability insurance for any personnel responsible for operating any of the asset(s).

OMAR shall report to the donor occasionally or as agreed on its use of the asset(s), including the condition and the current location. Donor shall be notified immediately of any damage or loss, other than normal wear and tear, and the repair or recover action to be undertaken by OMAR.

If there is any dispute arising in connection with this Right of Use that cannot be resolved amicably, the dispute shall be submitted to arbitration and the decision of which shall be accepted as a final adjudication of the matter by both parties.

Note 6 – Subsequent Events⁴

Subsequent to the period covered in the audit of the accompanying special purpose financial statement, allegations of fraud were made against the Auditee.

⁴ Prepared by Auditor

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement⁵

Note A – Vehicle Leasing Expense – Unsupported Costs

Unsupported costs are those costs for which sufficient supporting documentation is not available.

Finding 1 – Leasing Expense – questioned \$2,156,695. OMAR did not engage in open and free competition and did not maintain adequate supporting procurement documentation with respect to the leasing of vehicles.

[Please refer to Detailed Audit Finding 1 on page 22]

Note B – Security Expense – Unsupported Costs

Unsupported costs are those costs for which sufficient supporting documentation is not available.

Finding 1 – Security Expense – questioned \$2,830. OMAR did not maintain adequate supporting documentation for procuring certain security costs. *[Please refer to Detailed Audit Finding 2 on page 26]*

⁵ Prepared by Auditor

Independent Auditor's Report on the Special Purpose Financial Statement

To the Director, Organization for Mine Clearance and Afghan Rehabilitation
Kabul, Afghanistan

Report on the Special Purpose Financial Statement

We have audited, the Special Purpose Financial Statement of the Organization for Mine Clearance and Afghan Rehabilitation ("OMAR") in the performance of Grant Agreement Numbers SPMWRA10-GR-0006 (April 1, 2010 to August 1, 2013); SPMWRA10-GR-0094 (August 1, 2010 to October 31, 2011); SPMWRA10-GR-0127 (September 1, 2010 to January 31, 2012); SPMWRA11-GR-0014 (April 1, 2011 to March 31, 2012); SPMWRA12-GR-1006 (April 1, 2012 to March 31, 2013); SPMWRA12-GR-1111 (September 28, 2012 to April 30, 2013); SPMWRA13-GR-1012 (April 1, 2013 to March 31, 2014); SPMWRA13-GR-1013 (April 1, 2013 to March 31, 2014); and SPMWRA13-GR-1022 (April 1, 2013 to March 31, 2014), hereinafter referred to as the financial statement. Our responsibility is to express an opinion on the financial statement based on our audit.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit of the Special Purpose Financial Statement in accordance with U.S. 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 Special Purpose Financial Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Special Purpose Financial Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Basis for Qualified Opinion

The results of our tests disclosed the following material questioned costs as detailed in the Special Purpose Financial Statement: \$2,159,525 in costs that are explicitly questioned because sufficient supporting documentation is not available for these costs.

Qualified Opinion

In our opinion, except for the effects of the questioned costs discussed in the basis for qualified opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed by the U.S. Department of State for the period April 1, 2010 through March 31, 2014 in

accordance with the terms of the grant agreements or in conformity with the basis of accounting described in Notes to the Special Purpose Financial Statement, Page 9.

Other Reports Required by Government Auditing Standards

In accordance with U.S. Government Auditing Standards, we have also issued our reports, dated February 10, 2015, on our consideration of OMAR's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

Restriction on Use

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

Davis & Associates

Alexandria, Virginia
February 10, 2015

Independent Auditor's Report on Internal Control

To the Director, Organization for Mine Clearance and Afghan Rehabilitation
Kabul, Afghanistan

We have audited, the Special Purpose Financial Statement of the Organization for Mine Clearance and Afghan Rehabilitation ("OMAR") in the performance of Grant Agreement Numbers SPMWRA10-GR-0006 (April 1, 2010 to August 1, 2013); SPMWRA10-GR-0094 (August 1, 2010 to October 31, 2011); SPMWRA10-GR-0127 (September 1, 2010 to January 31, 2012); SPMWRA11-GR-0014 (April 1, 2011 to March 31, 2012); SPMWRA12-GR-1006 (April 1, 2012 to March 31, 2013); SPMWRA12-GR-1111 (September 28, 2012 to April 30, 2013); SPMWRA13-GR-1012 (April 1, 2013 to March 31, 2014); SPMWRA13-GR-1013 (April 1, 2013 to March 31, 2014); and SPMWRA13-GR-1022 (April 1, 2013 to March 31, 2014), hereinafter referred to as the financial statement, and have issued our report, dated February 10, 2015.

Management Responsibility

Management is responsible for establishing and maintaining internal control, 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 grant agreements; and transactions are recorded properly to permit the preparation of the financial statement in conformity with the basis of accounting described in Note 1.

Auditor Responsibility

We conducted our audit in accordance with U.S. *Government Auditing Standards* issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected and 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.

Internal Control over Financial Reporting

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

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

We consider the following deficiency in the entity's internal control to be a material weakness:

- OMAR did not establish a maximum amount for a single cash transaction and as a result the majority of the payments were disbursed using physical cash rather than utilizing the banking system. [Please refer to *Detailed Audit Finding 4* on page 30]

Purpose of this Report

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

Davis & Associates

Alexandria, Virginia
February 10, 2015

Independent Auditor's Report on Compliance

To the Director, Organization for Mine Clearance and Afghan Rehabilitation
Kabul, Afghanistan

We have audited, the Special Purpose Financial Statement of the Organization for Mine Clearance and Afghan Rehabilitation ("OMAR") in the performance of Grant Agreement Numbers SPMWRA10-GR-0006 (April 1, 2010 to August 1, 2013); SPMWRA10-GR-0094 (August 1, 2010 to October 31, 2011); SPMWRA10-GR-0127 (September 1, 2010 to January 31, 2012); SPMWRA11-GR-0014 (April 1, 2011 to March 31, 2012); SPMWRA12-GR-1006 (April 1, 2012 to March 31, 2013); SPMWRA12-GR-1111 (September 28, 2012 to April 30, 2013); SPMWRA13-GR-1012 (April 1, 2013 to March 31, 2014); SPMWRA13-GR-1013 (April 1, 2013 to March 31, 2014); and SPMWRA13-GR-1022 (April 1, 2013 to March 31, 2014), hereinafter referred to as the financial statement, and have issued our report dated, February 10, 2015

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its U.S. Department of State funded program.

Auditor's Responsibility

We conducted our audit in accordance with U.S. *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 Special Purpose Financial Statement is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Special Purpose Financial Statement amounts.

Compliance and Other Matters

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

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Special Purpose Financial Statement.

In performing our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing, however we were made aware of possible fraud allegations against the organization after fieldwork was completed. The results of our tests disclosed three instances of noncompliance that are required to be reported here under Government Auditing Standards and which are described in *Detailed Audit Findings 1, 2 and 3, pages 22, 26 and 28, respectively.*

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

Restriction on Use

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

Davis & Associates

Alexandria, Virginia
February 10, 2015

STATUS OF PRIOR AUDIT FINDINGS

Grant Agreement Number **SPMWRA10-GR-0006**
Period Covered Under Audit **Period Ended March 31, 2011**

1. Audit Finding C-1 – Unsupported Costs

The costs incurred by the Contractor were not supported by the adequate documentation.

Current Status

We selected a statistically significant sample to allow us to determine if the Auditee had successfully mitigated this finding – this sample size was selected to provide us with reasonable assurance. We found that the Auditee had substantially mitigated this finding, and we found no material unsupported costs for the period under audit.

2. Audit Finding C-2 – Late Posting of Costs

Some transactions were not recorded in the correct accounting period, these costs were instead posted to subsequent periods.

Current Status

We selected a statistically significant sample to allow us to determine if the Auditee had successfully mitigated this finding – this sample size was selected to provide us with reasonable assurance. We found that the Auditee had mitigated this finding, and we found that all costs were properly recorded in the correct periods.

3. Audit Finding C-3 – Lack of Competitive Bid Process

The costs incurred by the Auditee were not supported by the adequate documentation, which includes at least three quotations for purchases exceeding micro-purchase threshold, documents evidencing use of open and free competition for purchases exceeding simplified acquisition threshold, or sole source justification where multiple bids were not solicited.

Current Status

We selected a statistically significant sample of purchases to review to allow us to determine if the Auditee had successfully mitigated this finding – this sample size was selected to provide us with reasonable assurance. We found certain new instances (e.g. vehicle rental and security protection costs) under the current audit where the Auditee had not opened purchases to sufficient competition and had not provided proper sole source justification. We determined that the Auditee had not properly addressed the finding

Conclusion

The Auditee had properly addressed two of the three prior audit findings.

SCHEDULE OF DETAILED AUDIT FINDINGS

Finding Number **1**
Audit Area **Material Non-Compliance in Procurement of Rental Vehicles Costs**

Condition

Upon review of the vehicle rental costs for the period under audit, we found that the procurement of rental vehicles was not in compliance with the requirements set forth under 2 CFR 215 or the procurement processes outlined in the OMAR Financial Manual.

OMAR did not obtain three competitive quotes nor did it provide a sole source justification memo for the procurement of rental vehicles or demonstrate that the Entity had subjected this procurement to free and open competition to the maximum extent practical. Rather, a general memorandum (see *Cause* below) was prepared by OMAR management committee as a waiver from open and free competition for renting vehicles. (**2 CFR 215.43 – Competition**)

OMAR did not maintain the required proper procurement documentation for \$2,156,695 in vehicle rentals. The procurement documentation provided for the samples selected was incomplete and did not contain the information essential for a sound procurement process. (**2 CFR 215.44 - Procurement Procedures**) Below are examples of documentation deficiencies in the procurement procedures:

- The location of services purchased and the location of services rendered were not specified in the procurement documents, including rental vehicle lease agreement.
- The rental vehicle specifications (e.g. make, model, and/or use) were not mentioned in the majority of the procurement documentation.
- Different types of vehicles (Toyota Corolla, Toyota Land Cruiser, Toyota HiAce, and Dump Trucks) were rented at the same flat rate for a particular project. For example, all 22 vehicles of different types rented for the month of April 2010 under Grants SPMWRA10GR0006 were paid \$1,000 per month each.

OMAR did not provide documentation to demonstrate that the Entity had performed a price analysis to determine reasonableness, allocability and allowability of the lease costs. OMAR also did not document a

lease/purchase analysis to determine the most economical and practical procurement methodology for the vehicles. (2 CFR 215.45 - Cost and price analysis)

Table 3 – Lease Expense by Grant Agreement - April 1, 2010 through March 31, 2014

Grant Agreement	Lease Expense
SPMWRA10-GR-0006	\$264,000
SPMWRA10-GR-0094	\$499,661
SPMWRA10-GR-0127	\$175,923
SPMWRA11-GR-0014	\$423,661
SPMWRA12-GR-1006	\$374,400
SPMWRA12-GR-1111	\$0
SPMWRA13-GR-1012	\$125,600
SPMWRA13-GR-1013	\$153,600
SPMWRA13-GR-1022	\$139,850
	\$2,156,695

Criteria

OMB A-133 states: *“To be allowable under an award, costs must meet the following general criteria:*

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

g. Be adequately documented.”

2 CFR 215.43 – Competition

§ 215.43 Competition, states:

“All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.... Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient.”

2 CFR 215.44 - Procurement Procedures

§ 215.44 Procurement procedures, states:

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

(2) Where appropriate, an analysis is made of lease and purchase alternatives to determine which would be the most economical and practical procurement for the Federal Government.”...

The clause further states that:

”(e) Recipients shall, on request, make available for the Federal awarding agency, pre-award review and procurement documents, such as request for proposals or invitations for bids, independent cost estimates, etc., when any of the following conditions apply.

2 CFR 215.45 - Cost and price analysis

§ 215.45 Cost and price analysis, states:

“Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.”

OMAR Financial Manual, page 41, purchase process table 1:

“Minimum three (3) written, faxed or e-mail quotations or goods/services under Standing Offer for US\$301 and above or equivalent in other currencies.”

OMAR Financial Manual, page 43, *Sole Source Purchases*, states:

“This occurs when there is only one available supplier of a required product or service that meets the needs of OMAR. Negotiation is the method of purchase used to complete the terms and conditions for this purchase. A single source purchase occurs:

- a) Where the compatibility of purchase with existing equipment, facilities or service is a paramount consideration and the purchase must be made from a single source.*
- b) A statutory or market based monopoly exists.*
- c) Where an item is purchased for testing or trial use.*
- d) Where OMAR has a rental contract with a purchase option and such purchase option could be beneficial to the organization.”*

Questioned Costs

We questioned \$2,156,695 in vehicle lease expenses as unsupported costs, not subject to competition.

Cause

OMAR's management committee prepared a general memorandum as a waiver from open and free competition for renting vehicles and decided to negotiate the vehicle leases with individual vendors, which noted: "*since it is not possible to collect quotations in the areas where demining activities take place, therefore the management committee decides for smooth operational activities to negotiate vehicles rental agreements through logistics section in centre as well as in province.*" Although not provided to the Department of State Agreement Officer, OMAR management believed this memorandum relieved OMAR of the requirement to perform open and free competition, to the maximum extent practical, on vehicle rentals.

Effect

Failure to subject procurements over the established threshold to open and free competition and not maintaining adequate supporting documentation for the costs can result in the U.S. Government not receiving the most competitive price and being billed for unallowable costs.

Recommendation

We recommend that OMAR update its procurement policies and procedures to ensure compliance with the requirements set forth in 2 CFR 215.43 – Competition; 2 CFR 215.44 - Procurement Procedures; and 2 CFR 215.45 - Cost and price analysis. We also recommend that OMAR reimburse \$2,156,695 to the U.S. Department of State or provide required procurement supporting documentation demonstrating that the costs should be deemed allowable.

Risk Level

High

Finding Number 2
Audit Area Material Non-Compliance in Payment for Security Protection Costs Not Adequately Documented

Condition

Upon review of OMAR's security costs under project number SPMWRA-10-GR-127, we found that a payment to a former local commander for the provision of security protection to demining teams in Hesarak district was not supported by procurement documentation to demonstrate that the purchase of services had been subjected to a competitive bid process. In addition, the payment was made in foreign currency (240,000 Pakistani Rupees equivalent to \$2,830) and did not include documentation such as (1) proof of three competitive quotes, (2) proper scope of work for the service or, (3) proof of payment.

Criteria

OMB A-133 states: *"To be allowable under an award, costs must meet the following general criteria:*

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

g. Be adequately documented."

OMAR Financial Manual, page 34, Evidence of Receipt by Payee, states:

"To prevent duplicate payments or claims of discrepancies, all cash payments must be documented by evidence of receipt by payee. This means that the recipient of payment must sign that the cash was received in total at the time of payment".

2 CFR 215.43 – Competition

§ 215.43 Competition, states:

"All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.... Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient."

Questioned Costs

We questioned the amount of \$2,830 for security protection payment in Hesarak.

Cause

It is OMAR's practice to hire people from local community for security protection and stated that "no demining agency in Afghanistan can hire Police or armed guards other than the local communities as the demining agencies are neutral and try to keep its staff at very low profile." OMAR did not properly comply with the applicable requirements for the procurement of security services.

Effect

Failure to subject procurements to open and free competition and not maintaining adequate supporting documentation for the costs result in the U.S. Government being billed for unallowable costs.

Recommendation

We recommend that OMAR strengthen its policies to ensure strict adherence to required procurement processes and to maintain adequate supporting documentation for costs incurred. We also recommend that OMAR either reimburse \$2,830 to the Department of State or provide evidence both supporting the costs and demonstrating that open and free competition was performed.

Risk Level

Moderate

Finding Number 3
Audit Area Material Non-Compliance with Local Withholding Tax on Contractors

Condition

Upon review of OMAR’s payments to local contractors and vendors, we found that the required withholding taxes were not properly deducted from payments to local contractors. For example, no taxes were deducted from payments made to Shamshad Television (Shamshad). Shamshad provided production and broadcasting services for Mine Risk Education (MRE) spots. We also noted that no taxes were withheld from over \$2.15 million in total payments made to contractors for rental vehicles. No amount of costs are questioned because failure to withhold the 2% or 7% tax withholding from required vendor payments does not have an impact upon the amount charged to the projects, and therefore they do not present a cost impact to the U. S. Government.

Criteria

OMAR Financial Manual, page 43, *Organizational Tax Obligation*, states “*OMAR is subject to withholding tax when making contracts with companies on rent, goods and services.*”

Article 72 of the Afghanistan Income Tax Law requires that taxes be withheld from payments to contractors. Nonregistered entities are subject to a 7% fixed tax and registered entities a 2% contractor tax. The Income Tax Manual issued by the Afghan Ministry of Finance states that “*the contracting agencies are required to withhold tax while making payments to contractors and transfer it to the government bank account.*” Article 72 also requires that tax amounts withheld from payment to a contractor be transferred to the government account within 10 days. However, the Income Tax Manual states that “*to relieve the withholding person of the additional burden and reduce the cost of compliance, the tax withheld during a month is required to be remitted to relevant government account on 10th of the next following month*”.

Questioned Costs

None

Cause

OMAR did not withhold taxes from eligible payments to local contractors because OMAR incorrectly assumed that, as a tax-exempt NGO, it was exempt from the requirement to withhold taxes from payments to contractors.

Effect

Failure to properly withhold the taxes from contractor payments caused OMAR to not be in full compliance with local tax provisions.

Recommendation

OMAR should ensure that all personnel are aware of and properly follow OMAR's own policy guidance relating to tax withholdings and Article 72 of the Afghanistan Income Tax Law.

Risk Level

Moderate

Finding Number 4
Audit Area Material Weakness in Internal Control in Cash Payments to Vendors

Condition

Upon review of OMAR's processes for payments to the Entity's employees and vendors, we found that OMAR did not establish the maximum amount for a single transaction that can be paid in cash, as was required by its Financial Manual. As a result, more than 80% of the payments were disbursed using physical cash rather than utilizing the banking system and most payments are made from Kabul, where banking services and electronic payments are widely available.

Several banks are established in Afghanistan and are widely available in Kabul and other major cities where OMAR has offices. OMAR does make payments, to the Entity's international suppliers/contractors and a few senior employees, via bank transfer. Since OMAR makes a great volume of transactions and has demonstrated that the Entity has the ability to make payments using the banking system, the auditor concludes that there is a significant deficiency in the Entity's internal control over payment methods.

Criteria

OMAR Financial Manual, page 34, *Minimizing Cash Transactions*, states:

"Given the inherent risks associated with cash handling, OMAR offices must always use other means of payment whenever possible, such as checks or wire transfers. To monitor cash payments, OMAR offices must establish a maximum value for any single cash transaction. Disbursement exceeding this threshold must be authorized by the executive director".

Questioned Costs

None

Cause

OMAR management indicated that because the Entity's operations and demining teams were deployed in remote regions where banking services are not available, they were not required to follow the requirement to minimize cash transactions.

Effect

Failure to establish a maximum amount for a single cash transaction and to minimize cash transactions, as outlined in the OMAR Financial Manual, increases the potential for theft and the misuse of funds due to the inherent risks associated with cash handling.

Recommendation

OMAR should establish a maximum value for a single cash transaction and implement more effective internal controls to ensure that payments are made electronically where banking services are available.

Risk Level

High

APPENDIX A – MANAGEMENT RESPONSE

Finding Number 1

Audit Area Material Non-Compliance in Procurement of Rental Vehicles Costs

Management Response

Finding Number 1 – Vehicles Rental Cost:

This has been discussed in detail during the field work in Kabul because almost in all projects, samples of vehicle rentals were included. I would like to further explain the process of rental vehicles stepwise below for your clarification;

- a. Before we mobilize our demining teams to the area for operation, we send our representatives (three to four members from all departments concerned) to the area to meet the community elders including district heads, if available, and to get their assurance for our teams security, finding suitable and secure location for teams' accommodation, and the issue of hiring/renting vehicles including hiring local staff as deminers and security guards. The locals know their community and terrain better than the outsiders, therefore community based working model has been introduced in recent years for most of development programs including demining projects throughout Afghanistan.*
- b. In our visit, we ask the community if anyone is willing to rent their vehicles with our required specification including type of vehicle etc. that should be capable of carrying our teams to the field. As earlier shared with you through the emails, all this process is documented (in the shape of ESTILAM in local language). In response to our ESTILAM, the owners from the community give their prices which is then negotiated to reach the best reasonable price. Bidding for each and every vehicle is not practicable in the circumstances because it is difficult to find a supplier in the community having tens of vehicles to provide us. Therefore the ESTILAM we issue among the community is regarded as a request for quotation.*
- c. Complete process of bidding (ESTILAM) which has already been shared with your office vide my emails of 4th Feb, 5th Feb, 6th Feb & 12th February 2015 is attached and explained below:*
 - i. Attached is 5 samples of vehicles rental selection process along with a table in pdf. The later one contains the translation from local languages and describes the selection process.*
 - ii. These ESTILAMs, with terms and conditions, are distributed among the vehicles owners. The price is then determined by negotiating with the owners to ensure the most economical and competitive price is paid for the vehicle. This negotiation is as per OMAR Financial Manual page # 43 which clearly states;*

Negotiation: Negotiations with one or more suppliers for the supply of goods and/or service would take place when any of the following conditions exist:

- a) Due to market conditions, where goods and/or services are in short supply;
- b) There is only one source of the goods or services;
- c) The extension, or reinstatement of, and existing contracts would be more cost or beneficial to OMAR. The extension or reinstatement of existing contract is subject to the approvals to Tender Awarding.

Also OMAR proposals submitted to the donor (attached herewith) clearly mentions that vehicles shall be rented from the community as per page # 11, paragraph 1 and 2;

- “Utilization of Identified equipment and tools- since this program is community based program and the local people from the community are involved in it and most of the operation will take place in remote areas, utilization of identified vehicles and equipment e.g. white vehicle and deferent logos on it will cause high risk to the property and personnel, therefore, it is planned to hire local vehicles for the program”.
 - “Community lack of interest due to economical status - since the economical situation of the communities is too low, this risk may occur, but this community based program is created to involve the community and get some financial support from the project, therefore the risk can be very low and will not affect the operations”.
- iii. The most left side column of the table contains English translation of the terms and conditions mentioned in the ESTILAM.
- SAMPLE 1: Price is quoted \$1,000 by the owner. OMAR offered \$800/month which has been accepted. As a result contract is signed between OMAR & the Owner.
 - SAMPLE 2: Price is quoted \$1,000 by the owner. OMAR has offered \$800 which is the lowest rate for this period but the owner doesn't agree. As a result no contract is signed.
 - SAMPLE 3: The price of \$800 quoted at first place by the owner was reasonable. As a result the contract is signed between OMAR and the Owner.
 - SAMPLE 4: Price is quoted \$1,000 by the owner. OMAR offered \$800 which is the lowest rate for this period but the owner doesn't agree. As a result no contract is signed.
 - SAMPLE 5: Price is quoted \$1,100 with the condition that if the vehicle is hijacked, burnt, or destroyed due to explosion, the owner will ask for compensation. Since OMAR had no comprehensive insurance coverage, therefore the negotiation doesn't take place and the contract is not signed.
- iv. These samples were twice shared with your office, but this time with further explanation and references to the OMAR Financial Manual and Project Proposal submitted to the donor has been provided. The later one makes an integral part of the contract at the meantime.
- v. In the samples above, only one person for one vehicle offered the lowest price of \$800. This person is not able to provide all the required vehicles to make the contract with, therefore, we must negotiate with other vehicles' owners to bring the prices to a lowest price possible both acceptable to OMAR as well as the owner.

- vi. *If negotiation doesn't take place with individuals then OMAR had to contract vehicles in different prices ranging from \$800 to \$1,100. In such cases OMAR will not be able to pay as the budget would not allow to do so.*
- vii. *If negotiation is made then definitely a flat rate is agreed across the board which at the meantime will be within the approved budget-line.*
- viii. *As explained in my email of 6th February, [REDACTED] discussed the following audit findings on his last day of OMAR visit i.e. 18th January, 2015;*
 - 1. *Issue of withholding tax*
 - 2. *Cash payment issue*
 - 3. *Interest issue of \$466~*
 - 4. *Security payment in Hesarak District to the security staff.*
 - 5. *Director International Trip of \$201 (Ticket cost). Later this point was dropped from the findings list as OMAR provided official evidence for the trip.*
- ix. *Since vehicles rental was not an audit finding for us until we had briefing session on 5th February, 2015 otherwise we would have certainly provided all the above evidence and explanation within the country. We could not understand where this finding arise from, after the completion of field work.*
- x. *Our management had suggested [REDACTED], the auditor, to complete the work in OMAR Kabul Office to avoid the communication problem through email as it was not easy for us to explain the issues in English especially by email. Therefore we all agreed and extended the duration of auditor's field work in OMAR Kabul and have also worked on off days, almost from 8 am to 9 pm to achieve the objectives.*

The rest of the findings were not new nor surprising for us as these were time and again discussed during the field work in OMAR. But it was shocking for us when the auditor raised this query of unsupported cost of above 2 million after reaching USA. It was not discussed during the fieldwork rather small queries like security cost of \$2,830, surplus/deficit of not even \$500 and \$201 travel cost of director to attend PMWRA donor conference in Dubai were discussed. If the auditor was not satisfied with the vehicles rental support, attached to the vouchers (once again I attach full set of voucher along-with its supporting documents for your information), we would have shown all other documents with the concerned department of transport in Kabul that have been sent through emails after the completion of field work. If we were to send documents by email then why we extended the three days' work in Kabul, which cost us in terms of the auditor's stay and other arrangement. Putting things in the draft report is not the professional way to deal with such situation. The problem is how to convince those people who have not seen the documents and could easily be misled. We suggest the auditor should have discussed the finding before putting in the draft report. My request to you and your team is to reconsider this before you proceed with the finalization of the report.

Finding Number 2
Audit Area Material Non-Compliance in Payment for Security Protection Costs Not Adequately Documented

Management Response

Finding Number 2 – Security Payment – As explained during your auditor visit to our office, the payment is made to the security people selected from the community by the elders which was inevitable for the successful completion of the work in that district. This payment is well documented and supported with signs and receipts of the persons responsible. (A complete set of the documents that supports security cost evidence I already sent vide my email of Jan 19, 2015 is attached herewith). OMAR, as always, prior to the mobilization of teams to the concerned area, sends representatives to meet the district heads, community elders and assess the area to see if work can be done. If so, beside other issues discussed above, community elders are asked to introduce some trustworthy people for the security of our teams in the area as well as deminers to work for the organization. This practice has taken place in Hesarak as well. The auditor should have considered the ground reality by knowing that no Afghan demining agency in Afghanistan can hire Police or armed guards other than the local communities as the demining agencies are neutral and try to keep its staff at very low profile. There were 12 deminers killed recently in Helmand for which the responsibility of security was under the National Army, who were employed by an international organization.

9. Our friend, the auditor, in the draft audit report has recommended full and open security cost competition in Hesarak, an insecure district in Nangarhar province, eastern Afghanistan where even the Government departments could not function. But OMAR with the cooperation of community has successfully implemented community based demining project and has achieved the objectives.

Furthermore, security selection is also based on negotiation that both OMAR Financial Manual as well as Proposal submitted to the donor describes this. Please refer for this to OMAR Financial Manual page 43 (negotiation paragraph) and Project Proposal page # 11 paragraph 1 and 2.

OMAR does not agree that these are unsupported cost (neither vehicle rental cost nor security cost) if you don't have any other option to deal with the situation like these. The absence of three quotations can be deemed a control weakness, that even in ideal situations, which is not our case.

OMAR would be happy to follow the recommendation of the auditors to further strengthen our control environment in the future not only this issue but any other area that best benefit all the stakeholders.

Finding Number 3
Audit Area Material Non-Compliance with Local Withholding Tax on Contractors

Management Response

Finding Number 3 – Local Tax Law Issue

As long as local tax law is concerned OMAR has implemented this and has withholding tax policy on salaries and other benefits to the employees. The auditor has raised the issue of payment to Shamshad Television for Mine Risk Education spots that Shamshad has paid the BRT and shared the receipt with OMAR. The purpose of Tax Law is to collect the taxes in the country either from the supplier or withheld by the payee. So in this case this has been paid by the supplier itself.

Regarding other taxes OMAR has no major contract with companies or entities to withheld tax rather the payments are made in remote areas to the individual owners of vehicles or food stuff for deminers.

You have rightly mentioned that OMAR Financial Manual states that OMAR is subject to withholding tax when making contracts with companies on rent, goods and services.

We believe this would be best to follow the recommendation in the future as long as it is practicable.

Finding Number 4

Audit Area Material Weakness in Internal Control in Cash Payments to Vendors

Management Response

Finding Number 4 – Cash Payment issue to the vendors

As explained during your audit review, majority of OMAR payments are in the shape of salaries to the staff in the remote areas where no banking services are available. Also the expenditure for the daily expenses of teams food stuff, utilities, telephone usage, vehicles fuel/lubricants and maintenance etc. are in the districts, therefore, it is paramount to use cash as the banking system are not available in those areas. OMAR has already established the procedure in the provinces to transact through banking as long as it is possible. OMAR will follow the recommendation of the auditor to minimize the risk with cash handling in the future.

APPENDIX B – AUDITOR FURTHER RESPONSE

Finding Number **1**
Audit Area **Material Non-Compliance in Procurement of Rental Vehicles Costs**

Auditor Further Response

This alternate method of procurement practice for rental vehicles explained in OMAR’s management response was not documented during the procurement phase and is not in compliance with the requirements set forth under 2 CFR 215 or the procurement processes outlined in the OMAR Financial Manual.

With regard to OMAR’s reference to the proposal section in which the Entity suggested hiring vehicles from the local community, we understand that this part of the proposal is not included as a condition in the grant agreements and should not be considered as a waiver for following the required procurement procedures. Furthermore, working with the local community should not result in non-compliance with the required agreement terms and federal regulations.

In conclusion, our finding will remain as we believe no satisfactory justification was provided.

Finding Number 2
Audit Area Material Non-Compliance in Payment for Security Protection Costs Not Adequately Documented

Auditor Further Response

This alternate method of procurement practice for security services explained in OMAR's management response was not documented during the procurement phase and is not in compliance with the requirements set forth under 2 CFR 215 or the procurement processes outlined in the OMAR Financial Manual.

With regard to OMAR's reference to the proposal section in which the entity suggested engaging the local community, we understand that this part of the proposal is not included as a condition in the grant agreements and should not be considered as a waiver for following the required procurement procedures. Furthermore, working with the local community should not result in non-compliance with the required agreement terms and federal regulations.

In conclusion, our finding will remain as we believe no satisfactory justification was provided.

Finding Number 3
Audit Area Material Non-Compliance with Local Withholding Tax on Contractors

Auditor Further Response

Withholding taxes were not properly deducted from payments to local contractors as required in Article 72 of the Afghanistan Income Tax Law (Withholding Tax on Contractors). The information provided by OMAR in its management response does not provide sufficient documentation to verify that the taxes were properly withheld and transferred as required.

In conclusion, our finding will remain as we believe no satisfactory justification was provided.

Finding Number 4

Audit Area Material Weakness in Internal Control in Cash Payments to Vendors

Auditor Further Response

We agree with OMAR's suggestion to follow our recommendation for minimizing cash disbursements and utilizing more banking systems in the future. However, we disagree with OMAR's response stating that the majority of payments are processed in remote areas. We found that the majority of payments were processed in cash at their Kabul and Jalalabad offices, where they have access to the banking systems that are widely available in these cities.

APPENDIX C – CONSOLIDATING SPECIAL PURPOSE FINANCIAL STATEMENT

The Organization for Mine Clearance and Afghan Rehabilitation April 1, 2010 through March 31, 2014

	SPMWRA- 10-GR- 0006	SPMWRA- 10-GR- 0127	SPMWRA- 10-GR- 0094	SPMWRA- 11-GR- 0014	SPMWRA- 12-GR- 1006	SPMWRA- 12-GR- 1111	SPMWRA- 13-GR- 1012	SPMWRA- 13-GR- 1013	SPMWRA- 13-GR- 1022	TOTAL
Revenue	2,180,000	1,000,000	2,980,000	3,100,000	3,000,000	42,000	1,000,000	1,184,411	1,179,589	15,666,000
Total Revenue	2,180,000	1,000,000	2,980,000	3,100,000	3,000,000	42,000	1,000,000	1,184,411	1,179,589	15,666,000
Object Class Categories										
Personnel	817,788	417,919	1,168,892	1,485,570	1,448,205	21,045	524,688	602,858	520,716	7,007,682
Fringe Benefits	66,118	29,532	98,873	106,395	123,116	254	33,690	44,129	16,875	518,982
Travel	3,523	1,945	3,373	3,042	2,185	-	4,588	2,561	4,841	26,057
Equipment	20,970	169,125	157,308	116,845	13,761	-	6,805	7,897	29,226	521,939
Supplies	32,082	13,705	28,646	62,223	39,709	426	17,416	14,973	32,090	241,271
Contractual	394,462	151,481	403,721	402,645	324,094	7,318	130,069	157,636	176,391	2,147,817
Construction	-	-	-	-	-	-	862	395	-	1,257
Other	249,723	111,200	188,050	406,054	309,170	10,039	145,561	134,551	212,531	1,766,878
Indirect Charges	514,976	103,832	908,758	517,226	741,885	2,917	136,320	219,412	186,919	3,332,243
Gain/(loss)	-	1,262	-	-	-	-	-	-	-	1,262
Amount Refunded to US-DoS	80,359	-	22,380	-	-	-	-	-	-	102,739
Grand Total	2,180,000	1,000,000	2,980,000	3,100,000	3,002,124	42,000	1,000,000	1,184,411	1,179,589	15,668,124

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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:

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- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
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- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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