

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 15-73 Financial Audit**

USAID's Southern Regional Agricultural  
Development Program: Audit of Costs  
Incurred by International Relief and  
Development, Inc.



JULY  
2015

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On August 27, 2011, the U.S. Agency for International Development (USAID) issued a 1-year cooperative agreement for nearly \$65 million to International Relief and Development, Inc. (IRD) to implement the Southern Regional Agricultural Development (SRAD) program. The primary objectives of SRAD were to strengthen economic stabilization and promote long-term agricultural development in Kandahar and Helmand provinces in southern Afghanistan. The cooperative agreement's initial period of performance ended on August 31, 2012. After six modifications, the period of performance was extended through October 15, 2012, and the program funding increased to nearly \$70 million.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$69,834,921 in expenditures charged to the award from August 27, 2011, through October 15, 2012. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in IRD's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether IRD has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of IRD's Special Purpose Financial Statement. See Crowe Horwath'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, we oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with U.S. generally accepted government auditing standards.

July 2015

## USAID's Southern Regional Agricultural Development Program: Audit of Costs Incurred by International Relief and Development, Inc.

SIGAR 15-73-FA

### WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified two material weaknesses and one significant deficiency in internal control, and four instances of material noncompliance with laws, regulations, or the terms and conditions of the cooperative agreement. Specifically, IRD used the highest value for donated goods rather than using the fair market price as required by the Code of Federal Regulation. In addition, IRD's cooperative agreement required USAID to approve local procurements above \$5 million, which is consistent with the agency's standard regulations. However, IRD did not obtain approval for local procurements that exceeded the \$5 million threshold because IRD believed modification 1 to the cooperative agreement waived the requirement. However, as confirmed by USAID, the agency did not waive the requirement, and approvals were still required for local procurements above the \$5 million threshold.

As a result of these internal control deficiencies and instances of noncompliance, Crowe Horwath identified \$28,417,356 in questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval. Crowe Horwath did not identify any ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Cost sharing	\$0	\$85,409	\$85,409
Local procurement	\$0	\$28,331,947	\$28,331,947
<b>Totals</b>	<b>\$0</b>	<b>\$28,417,356</b>	<b>\$28,417,356</b>

Crowe Horwath reviewed two audit reports that included the SRAD program within their scopes. However, there were no findings pertinent to the program that required follow-up.

Crowe Horwath issued an unmodified opinion on IRD's Special Purpose Financial Statement, noting that it presents fairly, in all material aspects, revenues received, costs incurred, and the balance for the indicated period audited.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible agreement officer at USAID:

- Determine the allowability of and recover, as appropriate, \$28,417,356 in questioned costs identified in the report.**
- Advise IRD to address the report's three internal control findings.**
- Advise IRD to address the report's four noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 14, 2015

The Honorable Alfonso E. Lenhardt  
Acting Administrator  
U.S. Agency for International Development

Mr. William Hammink  
USAID Mission Director for Afghanistan

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by International Relief and Development, Inc. (IRD) under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Southern Regional Agricultural Development (SRAD) program.<sup>1</sup> Crowe Horwath's audit covered \$69,834,921 in expenditures charged to the cooperative agreement from August 27, 2011, through October 15, 2012. 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 responsible agreement officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$28,417,356 in questioned costs identified in the report.**
- 2. Advise IRD to address the report's three internal control findings.**
- 3. Advise IRD to address the report's four noncompliance findings.**

The results of Crowe Horwath's audit are further detailed in the attached report. We reviewed Crowe Horwath'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 IRD's Special Purpose Financial Statement. We also express no opinion on the effectiveness of IRD's internal control or compliance with the contract, laws, and regulations. Crowe Horwath is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe Horwath 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 your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-041)

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<sup>1</sup> USAID awarded cooperative agreement number 306-A-00-11-00525-00 to IRD to implement the SRAD program, which intended to strengthen economic stabilization and promote long-term agricultural development in Kandahar and Helmand provinces in southern Afghanistan.



**International Relief and Development, Inc.**

**Special Purpose Financial Statement**

**Southern Regional Agricultural Development Program (SRADP)**

**For the Period August 27, 2011, through October 15, 2012**

**(With Independent Auditor's Report Thereon)**

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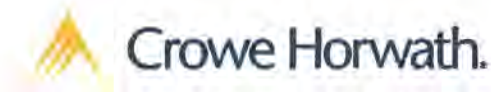
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## Transmittal Letter

May 13, 2015

To the President and Management of International Relief and Development, Inc.  
1621 North Kent Street, Fourth Floor  
Arlington, Virginia 22209

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 financial audit of International Relief and Development, Inc.'s (IRD) cooperative agreement with the United States Agency for International Development ("USAID") funding the Southern Regional Agricultural Development ("SRAD") 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 Special Purpose Financial Statement, report on internal control, and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of International Relief and Development, Inc., the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses to the findings have been incorporated into the final report as an appendix and are followed by auditor's responses.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of International Relief and Development, Inc.'s SRAD Program.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner  
Crowe Horwath LLP

## Summary

### Background

International Relief and Development, Inc. ("IRD") entered into cooperative agreement with the United State Agency for International Development ("USAID") on August 30, 2011, to strengthen economic stabilization and promote long-term agricultural development along six crop and livestock value chains in Kandahar and Helmand. The project, the Southern Regional Agricultural Development ("SRAD") Program, was funded by cooperative agreement number 306-A-00-11-00525-00, which had a total estimated award amount of \$64,998,921. Six modifications were subsequently issued that extended the period of performance to October 15, 2012. Over the course of the project, IRD incurred \$69,834,921 in Federal program costs, excluding amounts reported as cost share.

Throughout the project's period of performance, IRD collaborated with numerous implementing partners, subcontractors, subgrantees, a variety of construction companies and other vendors, and USAID to execute upon the scope of work identified in the cooperative agreement.<sup>1</sup> As reported in IRD's final report on the SRAD Program dated January 15, 2013, results (unaudited by Crowe) included, but were not limited to:

- Planting 1 million fruit tree saplings;
- Helping 42,000 beneficiaries through the provision of seed and fertilizer packages valued at \$16 million;
- Training 66,000 farmers and women in best agricultural practices;
- Distribution of 12,300 combustion power and solar power units to farmers and agribusinesses;
- Investing \$4 million on projects to strengthen local communities and value chain beneficiaries; and
- Investing \$9 million on projects to improve agricultural infrastructure, which provided jobs to 7,400 Afghan laborers.

### 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 IRD's SRAD Program.

### Objectives Defined by SIGAR

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

#### *Audit Objective 1 – Special Purpose Financial Statement*

Express an opinion on whether the Special Purpose Financial Statement for the award 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 accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

#### *Audit Objective 2 – Internal Controls*

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

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<sup>1</sup> Organizations that IRD worked with included, but were not limited to, FLAG International LLC, Altai Consulting, the Directorate of Agriculture, Irrigation and Livestock, and the Ministry of Agriculture, Irrigation and Livestock.

### *Audit Objective 3 – Compliance*

Perform tests to determine whether IRD 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**

The scope of the audit included the period August 27, 2011, through October 15, 2012, for the SRAD program. The audit was limited to those matters and procedures pertinent to the cooperative agreement that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management;
- Matching, Level of Effort and/or Earmarking
- Procurement; and
- Reporting.

## **Methodology**

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, 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, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and 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 SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

With regard to Audit Objective 2 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 IRD. 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 3 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 IRD and USAID, the Code of Federal



Regulations ("CFR"), and the Automated Directives System ("ADS") guidance documents – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, drawdowns on IRD's letter of credit provided by the U.S. Government, procurements, property and equipment dispositions, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess IRD'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"), and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both IRD and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We obtained and reviewed IRD's two OMB Circular A-133 audit reports pertaining to the SRAD Program's period of performance. Per review of the audit reports and discussion with both USAID and IRD, there were no audit findings, recommendations, or other reports issued that pertained to the award under audit and required follow-up by IRD.

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 issued an unmodified opinion on the Special Purpose Financial Statement.

With regard to matters of internal control and compliance, Crowe identified four findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the cooperative agreement; and/or (4) questioned costs resulting from identified instances of noncompliance. Other matters that did not meet the aforementioned criteria were communicated verbally to IRD.

Crowe also reported on both IRD's compliance with the applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement and the internal controls over compliance. Two material weaknesses in internal control, one significant deficiency in internal control, and four instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$28,417,356 in costs was questioned as presented in **TABLE A** contained herein.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to IRD's financial performance under the cooperative agreement. Per communications with IRD and USAID, there were two such A-133 reports issued during the years that the SRAD Program was active. No findings pertinent to the SRAD Program were identified during our review of the audit reports.

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

**TABLE A: Summary of Findings and Questioned Costs**

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2015-01	Cost Share and Valuation of Donated Goods	\$85,409	\$85,409
2015-02	Foreign Currency Conversions	\$0	\$85,409
2015-03	Local Procurement	\$28,331,947	\$28,417,356
2015-04	Financial Management System	\$0	\$28,417,356
<b>Total Questioned Costs</b>			<b>\$28,417,356</b>

#### Summary of Management Comments

IRD agreed with findings 2015-02 and 2015-04. IRD disagreed with finding 2015-01 based upon the company's position that the valuation source cited within the donation documents is generally more conservative than fair market values and because IRD considers the approach used to value the donated pharmaceuticals to be consistent with industry standards. IRD also disagreed with finding 2015-03 based on the company's interpretation that the first modification to the cooperative agreement removed the requirement for prior approvals of local procurements that exceed the thresholds established within the cooperative agreement and USAID regulations. IRD also considered USAID's response to a question pertaining to requirements for prior approvals under the budget and program revision components of the federal regulations to have indicated that prior approvals of procurements were not required. Specifically, IRD noted that USAID did not reference the requirement for prior approvals of local procurements within the e-mail correspondence and, therefore, such approvals were not required.

#### References to Appendices

The auditor's reports are supplemented by two appendices - **Appendix A** containing the Views of Responsible Officials and **Appendix B** containing the auditor's rebuttal to management's response.

**INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT**

To the President and Management of International Relief and Development, Inc.  
1621 North Kent Street, Fourth Floor  
Arlington, Virginia 22209

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

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

We have audited the Special Purpose Financial Statement ("the Statement") of International Relief and Development, Inc. ("IRD"), and related notes to the Statement, for the period August 27, 2011, through October 15, 2012, with respect to the Southern Regional Agricultural Development Program funded by cooperative agreement number 306-A-00-11-00525-00.

***Management's Responsibility for the Special Purpose Financial 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 IV of Solicitation ID11140014 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a 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 Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

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

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

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(Continued)

**Opinion**

In our opinion, the Statement referred to above presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and on the basis of accounting described in Note 1.

**Basis of Presentation**

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by IRD in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of cooperative agreement number 306-A-00-11-00525-00, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Award referred to above. Our opinion is not modified with respect to this matter.

**Other Matter**

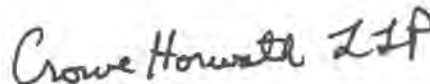
Finding 2015-03 identified \$28,331,947 in questioned costs as a result of IRD's not having obtained approval from the Agreement Officer for local procurements as required by the agreement. This matter may cause the costs to be considered unallowable with respect to compliance. The Statement includes the costs incurred for the award as recorded in IRD's financial accounting records. Our report on the Statement is specific to the presentation of recorded costs incurred and the accuracy of the financial records. Matters of compliance are addressed within the Independent Auditor's Report on Compliance.

**Restriction on Use**

This report is intended for the information of International Relief and Development, Inc., 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 May 7, 2015, on our consideration of IRD'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* in considering IRD's internal control over financial reporting and compliance.

  
Crowe Horwath LLP

May 7, 2015  
Washington, D.C.

**International Relief and Development, Inc.**  
**Special Purpose Financial Statement**  
**Southern Regional Agricultural Development Program**  
**For the Period August 27, 2011, through October 15, 2012**

			Questioned Costs		Notes
			Ineligible	Unsupported	
	<u>Budget</u>	<u>Actual</u>			
<i>Revenues</i>					
USAID Letter of Credit	\$ 69,834,921	\$ 69,834,921			4
<b>Total Revenue</b>	<u>69,834,921</u>	<u>69,834,921</u>		\$ 85,409	A
<i>Costs Incurred</i>					
Personnel	\$ 6,772,290	\$ 6,772,290			7
Fringe Benefits and Allowances	1,669,676	1,669,676			
Equipment	182,528	164,892			
Allowances	3,380,876	3,380,876			
Consultants	974,580	974,580			
Travel, Transportation, and Per Diem	871,415	871,415			
Other Direct Costs	4,443,931	4,748,649		\$ 479,949	B
Contractual	11,088,304	13,353,261		9,569,264	B
Program Interventions	30,721,014	28,173,129		12,538,642	B
Indirect Costs	9,730,307	9,726,153		5,744,092	B
<b>Total Costs Incurred</b>	<u>\$ 69,834,921</u>	<u>\$ 69,834,921</u>		<u>28,417,356</u>	
<b>Balance</b>		<u>\$ -</u>			8

The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

**International Relief and Development, Inc.**  
**Notes to the Special Purpose Financial Statement**  
**For the Period August 27, 2011, through October 15, 2012**

**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under cooperative agreement number 306-A-00-11-00525-00 for the Southern Regional Agricultural Development Program ("SRADP) for the period August 27, 2011, through October 15, 2012. Because the Statement presents only a selected portion of the operations of International Relief and Development, Inc. ("IRD"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of IRD. 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 cooperative agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

Expenditures reported on the Statement are reported in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Foreign Currency Conversion Method**

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. IRD translates local currency to U.S. dollars using the weighted average of conversions occurring within the applicable reporting month.

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds to which IRD is entitled to receive from USAID for allowable, eligible costs incurred under the cooperative agreement during the period of performance and co-pay funds received from program beneficiaries.

**Note 5. Cost Share**

IRD was required to provide \$3,014,683 in non-Federal cost share funds to contribute to the implementation of the program. IRD met the cost share through the following mechanisms:

Reinvestment of Co-Pay Receipts:	\$ 1,018,228
Gifts-in-Kind:	4,149,050
Cost Overruns Funded by Unrestricted IRD Cash:	<u>1,197,046</u>
Total Cost Share Funds Provided:	<u>\$ 6,364,324</u>

**Note 6. Valuation of Gifts-in-Kind**

IRD records contributions of gifts-in-kind at the fair market value in effect at the time of receipt.

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(Continued)

**Note 7. Costs Incurred by Budget Category**

The budgeted costs contained in the Special Purpose Financial Statement reflect the budgetary values contained in modification number 6 to the cooperative agreement effective February 13, 2014, which realigned the full project budget. The modification did not include a change in the approved award amount of \$69,834,921.

**Note 8. Balance**

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

**Note 9. Currency**

All amounts presented are shown in United States dollars.

**Note 10. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the October 15, 2012, period of performance. Management has performed their analysis through May 7, 2015.

## Notes to the Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

### Note A. Cost Share

Finding 2015-01 identified \$85,409 in questioned costs due to IRD's not having met the required cost share amount, but having drawn down the full amount of authorized Federal funds.

### Note B. Local Procurement

Finding 2015-03 identified \$28,331,947 in questioned costs as a result of IRD's not having obtained approval from the Agreement Officer for local procurements as required by the cooperative agreement.

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<sup>2</sup> Notes to the Questioned Costs Presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Statement.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL**

To the President and Management of International Relief and Development, Inc.  
1621 North Kent Street, Fourth Floor  
Arlington, Virginia 22209

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 Special Purpose Financial Statement ("the Statement") of International Relief and Development, Inc. ("IRD"), and related notes to the Statement, for the period August 27, 2011, through October 15, 2012, with respect to the Southern Regional Agricultural Development Program ("SDRAP") funded by cooperative agreement number 306-A-00-11-00525-00. We have issued our report thereon dated May 7, 2015.

**Internal Control over Financial Reporting**

IRD'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 contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the 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 Statement for the period August 27, 2011, through October 15, 2012, we considered IRD's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of IRD's internal control. Accordingly, we do not express an opinion on the effectiveness of IRD's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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(Continued)

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2015-03 and 2015-04 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency noted in Finding 2015-01 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

#### **International Relief and Development, Inc.'s Response to Findings**

International Relief and Development, Inc.'s response to the findings were not subject to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the 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 International Relief and Development, Inc., 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*  
Crowe Horwath LLP

May 7, 2015  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President and Management of International Relief and Development, Inc.  
1621 North Kent Street, Fourth Floor  
Arlington, Virginia 22209

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 Special Purpose Financial Statement ("the Statement") of International Relief and Development, Inc. ("IRD"), and related notes to the Statement, for the period August 27, 2011, through October 15, 2012, with respect to the Southern Regional Agricultural Development Program funded by cooperative agreement number 306-A-00-11-00525-00. We have issued our report thereon dated May 7, 2015.

### Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of International Relief and Development, Inc.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2015-01, 2015-02, 2015-03, and 2015-04 in the accompanying Schedule of Findings and Questioned Costs.

### International Relief and Development, Inc.'s Response to Findings

International Relief and Development, Inc.'s response to the findings were not subjected to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

### Purpose of this Report

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

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(Continued)

**Restriction on Use**

This report is intended for the information of International Relief and Development, Inc., 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*

Crowe Horwath LLP

May 7, 2015  
Washington, D.C.

## SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

### Finding 2015-01: Cost Share and Valuation of Donated Goods

#### Significant Deficiency and Non-Compliance

**Criteria:** Volume 2, Chapter 3 of IRD's Finance Manual states that "[contributions of pharmaceuticals and other commodities] will be valued at their fair market value at the time of receipt, with an advisory memorandum to the CFO IRD being prepared for entry as an in-kind contribution to the general ledger. The Manager, General Accounting, will record in kind contributions as income with a related charge to the benefited project. The CFO, or designate, will review donations yearly to ensure that collections have been posted to the General Ledger, in accordance with GAAP and Government requirements."

Per 22 CFR Part 226.23(f), "Donated supplies may include such items as expendable equipment, office supplies, laboratory supplies or workshop and classroom supplies. Value assessed to donated supplies included in the cost sharing or matching share shall be reasonable and shall not exceed the fair market value of the property at the time of the donation."

22 CFR Part 226.23(i) further requires that the basis for determining the valuation of in-kind contributions for personal services, material, equipment, buildings, and land shall be documented.

**Condition:** IRD received a contribution of 4,200 units<sup>3</sup> of albendazole, a pharmaceutical used in deworming medicines for livestock. The documentation provided to us included a note from the donor, METAD, stating that METAD "provide[s] the "highest" value in the [Average Wholesale Price or "AWP"] range." In addition, the value reference letter provided by the donor stated that METAD does not book AWP amounts and notes that IRD should verify the value. The use of the highest value may be considered unreasonable and may exceed the fair market value of the pharmaceuticals that were donated. We requested, but IRD did not provide, documentation supporting the fairness of the pharmaceuticals' value. During our independent review of pricing data available in 2015, we noted a median price of \$1.02 per tablet. We could not, however, locate pricing data from 2012 for albendazole. Using the \$1.02 per tablet price for the 700,000 donated tablets, the total expected value of the contribution is \$714,000.

The in-kind contribution of albendazole was recorded at \$4,149,050 based on the "highest" value in the AWP. IRD was required to provide \$3,014,683 in cost share funds per the final budget contained in modification number 6 to the cooperative agreement. Using the aforementioned \$1.02 median price per tablet, IRD's total cost share contributions would appear as follows and would, therefore, be \$85,409 below the required cost share amount:

Cost Share Reported on the SF 425:	\$ 5,346,096
Add: Co-Pay Receipts reported as Program Income:	<u>1,018,228</u>
Total Cost Share:	6,364,324
Less: Original METAD Contribution	(4,149,050)
Add: Revised METAD Contribution	<u>714,000</u>
Revised Total Cost Share:	\$ <u>2,929,274</u>
<u>Variance from \$3,014,683 Requirement:</u>	<u>(\$85,409)</u>

**Questioned costs:** \$85,409, which represents the difference between the required cost share amount and the recalculated actual cost share amount.

**Effect:** The Government may have funded a greater than required share of the program due to IRD's not having met the cost share requirement.

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<sup>3</sup> The albendazole that was donated to IRD was provided in two separate unit types – units of 100 tabs and units of 500 tabs. 700 units containing 500 tablets were provided, and 3,500 units containing 100 tablets were provided for a total of 4,200 units. A total of 700,000 tablets was, therefore, donated.

(Continued)

**Cause:** IRD considered the documentation provided by the donor to be adequate for the accounting of the donation and, therefore, did not evaluate the reasonableness or fairness of the costs.

**Recommendation:** We recommend that IRD either locate or produce documentation supporting the fair and reasonable valuation of the contribution. If IRD cannot locate documentation to support the reasonableness of the valuation, then IRD should refund the Government \$85,409. We further recommend that IRD develop and provide training regarding the process for supporting the fair market valuation of donated commodities and the nature and types of documentation that should be retained to support the valuation used by IRD.

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(Continued)

## Finding 2015-02: Foreign Currency Conversions

### Non-Compliance

**Criteria:** Per OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, to be allowable, a cost must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.
- b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.
- c. Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the organization.
- d. Be accorded consistent treatment.
- e. Be determined in accordance with generally accepted accounting principles (GAAP).
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
- g. Be adequately documented.

Note 3 to the Special Purpose Financial Statement indicates that IRD utilizes a weighted average approach for the conduct of foreign currency conversions.

**Condition:** IRD did not maintain adequate documentation to support the exchange rate used in the calculation of four transactions that were converted from Afghanis to United States dollars. Per discussion with IRD, review of historical rates published by Da Afghanistan Bank, and IRD's weighted average rates for the applicable time periods, the rates used were lower than expected based on IRD's established currency conversion practice referenced in Note 3 or the spot rate published by Da Afghanistan Bank. As a result, a \$17,013 overcharge was recorded to the cost share account. Therefore, there is not an impact on the amount of Federal funds paid to IRD, Federal expenditures, or on the SPFS, which contains only Federal transactions.

**Questioned costs:** None, due to IRD's having met the cost share requirement. However, if Finding 2015-01 is sustained, then an additional \$17,013 may be payable to the Government.

**Effect:** In addition to the overstatement noted in Finding 2015-01, IRD may have further overstated its cost share contributions and provided data to the Government indicating that greater non-Federal funds had been expended than were actually disbursed.

**Cause:** IRD was unsure why the incorrect exchange rates were used, and the errors were not detected during the review process.

**Recommendation:** We recommend that IRD issue instructions to its financial staff that require the staff to retain documentation supporting the exchange rates utilized at the time of booking conversions. We further recommend that, if Finding 2015-01 is sustained, that IRD remit the overcharge amount of \$17,013 to the Government

### Finding 2015-03: Local Procurement

#### Material Weakness and Non-Compliance

**Criteria:** Section A.9 of the cooperative agreement states:

The authorized geographic code for local procurements is 935, as set forth in 22 CFR 228.40 Local Procurement as amended and ADS Chapter 311. This blanket waiver effectively establishes (per USAID award) a single \$5 million threshold for local procurement to replace those individual thresholds currently set forth in 22 CFR 228.40 Local Procurement and ADS Chapter 311. Under the authority of this blanket waiver, [IRD] may now purchase:

- up to \$5 million of commodities of U.S. origin from local suppliers; OR
- up to \$5 million of commodities of geographic code 935 origin from local suppliers; OR
- up to \$5 million of professional services contracts from local suppliers; OR
- any combination of these commodities and professional services not to exceed \$5,000,000.

If the total amount of purchases of goods and services reaches the \$5 million threshold authorized in the waiver, then the requirements for local procurement revert to 22 CFR 228.40 (and as supplemented in ADS 311) for any additional purchases above the threshold.

Per ADS 311.3.1, "Local procurement is the purchasing of goods or services from vendors in the country where the USAID activity is taking place. This includes countries where USAID is funding an activity even if no USAID employees are working in that country. Under regional activities, if the countries included in the activity are not already included in the authorized source code, procurement from any of the countries in that region is considered local procurement."

Per OMB Circular A-122, for costs to be allowable, they must conform to any limitations or exclusions set forth in the cost principles applicable to non-profit organizations or in the award as to types or amount of cost items.

**Condition:** IRD incurred \$40,350,316 in costs resulting from local procurements. Of the \$40,350,316, \$27,587,855 required the Government's approval in accordance with USAID's local procurement regulations. A blanket waiver permitting \$5,000,000 of local procurements without prior written approval was approved by the Government and incorporated into IRD's cooperative agreement; however, local procurements above \$5,000,000 required approval by the Government consistent with the standard USAID regulations. IRD did not obtain approval for any of the local procurements that exceeded the amount of the waiver, which amounted to \$27,587,855.

The cooperative agreement asserted two geographic codes - 000 for procurement of goods and services and 935 for local procurements, as set forth in 22 CFR 228.40 and ADS Chapter 311. IRD considered modification #1 to the award to have changed the 000 reference to "935", thereby asserting geographic code 935 to apply to all procurements and to invalidate the local procurement requirement. However, the local procurement requirements within the cooperative agreement were unmodified. Per correspondence with USAID, the requirement was not modified and approvals were still required for local procurements above the \$5 million waiver threshold.

**Questioned costs:** \$28,331,947, inclusive of \$22,587,855 in direct local procurement costs after accounting for the \$5 million waiver and \$5,744,092 in associated indirect costs using the 25.43 percent indirect cost rate in IRD's negotiated indirect cost rate agreement (NICRA).

**Effect:** The Government may have funded greater activities and local transactions than intended.

**Cause:** IRD did not have a process in place to ensure compliance with the local procurement approval requirements. IRD interpreted the terms of modification #1 to the cooperative agreement that changed the geographic code for the general award activities from 000 to 935 to have modified the local procurement provision as well and to have invalidated the requirement for prior written approval by the Government for local procurement.

**Recommendation:** We recommend that IRD continue searching its award-related correspondence issued during the award period for written approval from the Government for the local procurements completed

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(Continued)



under the award or that expressly indicates that prior approvals for local procurements over the \$5,000,000 level were not required. If such documentation cannot be located, then we recommend that IRD return the amount of \$28,331,947 to the Government. We further recommend that IRD establish a procedure to identify instances where prior approval of a local procurement is required and that incorporates submission of a request to the applicable U.S. Government official for such approval.

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(Continued)

## **Finding 2015-04: Financial Management System**

### Material Weakness and Non-Compliance

**Criteria:** Section 6.4.6 of IRD's Financial Manual states that the Director of Field Accounting "is responsible for handling cost accounting input from field offices and entering this information on the Cost Point Deltek system (when the full system is in place, the field offices for large project will enter the data directly into Cost Point). The Director must ensure that:

- A. Cost data is consistent with the IRD Accounting Structure.
- B. Data for direct and indirect costs is reported separately.
- C. Costs are properly assigned by project, and by general ledger account.
- D. Non-allowable costs are recorded to non-allowable accounts."

Per Section 2.5.2(D) of the *IRD Operations Manual – Field Offices Finance and Accounting*, the Finance Manager is responsible for ensuring that all financial transactions are classified, recorded and summarized properly.

Title 22, Part 226.21, *Standards for financial management systems*, requires recipients' financial management systems to provide for the following items (not exhaustive):

- Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program;
- Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to all Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest;
- Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes; and
- Accounting records, including cost accounting records that are supported by source documentation.

**Condition:** During our testing and review of IRD's expenditure detail identifying the costs charged to the SRAD Project, we noted the following:

- Certain vendors were inconsistently classified as domestic or foreign subcontractors. For example, both Flag International and Aircraft Charter Solutions were recorded as both domestic and foreign subcontractors.
- Security enhancements and purchases of supplies and goods to support security matters were recorded in various accounts without a consistent methodology for the classification of charges. The accounts included 61-220-30 (Security), 63-250-00 (DR-Security Subs 1st 25K), and 63-250-10 (DR-Security Subs >25K).
- Vendor names were inconsistently recorded in the transaction detail.
- Purchase order numbers and invoice identification numbers were inconsistently recorded.

We also noted that, within IRD's Finance Manual, there are references to Deltek, although IRD utilizes CostPoint (in HQ) and Quickbooks (in the field). Lastly, IRD was unable to produce a procurement population consisting of all obligations that IRD entered into with Federal funds.

**Questioned costs:** None

**Effect:** Inconsistent accounting entries inhibit the ability to accurately track costs by vendor and account and increase the risk of inaccurate reporting by budgetary account.

In addition, the lack of purchase order information presents a risk that management may be unable to identify the specific associated purchasing instrument per transaction and, therefore, may prevent detection of instances in which prior approvals are required, but were not obtained.

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(Continued)

References to older software systems or software systems that are no longer in use may also contribute to presence of errors.

**Cause:** IRD noted that the complexity of the chart of accounts and financial structure contributed to the errors and inconsistencies. In addition, IRD did not consider the tracking of obligations to be required.

**Recommendation:** We recommend that IRD develop and deliver training to financial accounting staff regarding the use of certain cost accounts and the nature of transactions that should be recorded to each account. In addition, we recommend that IRD implement a periodic monitoring procedure to detect instances in which financial entries do not incorporate detailed data per transaction - including, but not necessarily limited to, purchase order numbers and invoice numbers - and instances in which similar transaction types are treated inconsistently. Finally, we recommend that IRD update its financial policies and procedures to relate to the current financial system(s) in use and the current state of accounting procedures that have been implemented.

## **SECTION 2: Summary Schedule of Prior Audit and Review Findings**

Crowe reviewed IRD's OMB Circular A-133 audit reports, which included the Southern Regional Agricultural Development ("SRAD") Program within their scope. No findings or recommendations were identified during our review that could have a direct and material effect on the Special Purpose Financial Statement. Per discussion with IRD and USAID, there were no other audits, assessments, reviews, or reports pertaining to the SRAD Program.

SIGAR issued Alert Letter 13-2 dated June 27, 2013, addressing various concerns with the SRAD Program. A corresponding report was not issued, and no recommendations were included within the alert letter for IRD. Accordingly, there were no matters identified for follow-up by Crowe.

**Appendix A: Views of Responsible Officials**

**TRANSMITTED BY E-MAIL ONLY**

May 05, 2015

Mr. Eric J. Russell  
Crowe Horwath LLP  
10 W. Broad Street, Suite 1700  
Columbus, OH 43215

**Subject:** Management Response to Draft Independent Auditor's report on the Special Purpose Financial Statement - Southern Regional Agricultural Development Program (SRADP)

The purpose of this memorandum is to provide the International Relief and Development, Inc. (IRD) response to the findings contained in the draft report received from you on April 24, 2015 on your audit of costs incurred in Afghanistan under the USAID Cooperative Agreement Number 306-A-00-11-00525-00 for the period August 27, 2011 to October 15, 2012. Per normal USAID IG practice, IRD requests that this response be included in full as an appendix to the final audit report.

**FINDINGS AND QUESTIONED COSTS:**

**Finding 2015-01 - \$85,409- Cost Share and Valuation of Donated Goods**

IRD disagrees with the auditor's finding and proposed valuation of distributed pharmaceuticals. The industry standard method used for valuation of pharmaceuticals at the time of the shipment was Average Wholesale Price (AWP) from the Red Book, which is generally more conservative than the fair market value. IRD submitted a request for an additional third-party valuation, which we will provide as soon as it is available.

**Finding 2015-02 - Foreign Currency Conversions**

IRD agrees with the finding and has taken a number of steps to address it:

- The use of weighted average exchange rate was included in the Field Standard Operating Procedures Manual from October 2014 and distributed to all field offices.

- The requirement has been reemphasized at a number of trainings and conferences, including field and home office finance staff orientations and trainings, IRD international finance conference in December 2014, and monthly WebEx conferences held by IRD HQ International Program Finance and field finance staff.
- IRD HQ Accountants and Finance Managers routinely review and verify calculations of average exchange rates before uploading field costs to HQ general ledger.

**Finding 2015-03 - \$28,331,947 – Local Procurement**

IRD does not agree with this finding, because the finding is based on the auditors' assertion that IRD did not obtain a waiver for local procurement of Geo Code 935 goods and services, above the \$5MIL threshold approved in the award. The auditor is incorrect because Modification #1 to the award contractually provided such blanket waiver approval in November of 2011 and IRD incurred the costs now challenged as unallowable in reliance upon the contractual waiver set forth in the Modification.

The auditors questioned \$28,331,947, inclusive of \$22,587,855 in direct local procurement costs after accounting for the \$5 million waiver and \$5,744,092 in associated indirect costs using the 25.43 percent indirect cost rate in IRD's negotiated indirect cost rate agreement (NICRA) based on the fact that *"A blanket waiver permitting \$5,000,000 of local procurements without prior written approval was approved by the Government and incorporated into IRD's cooperative agreement; however, local procurements above \$5,000,000 required approval by the Government consistent with the standard USAID regulations. IRD did not obtain approval for any of the local procurements that exceeded the amount of the waiver."* (Page 19 of the Draft Audit Report).

IRD strongly disagrees with this finding, including on the following basis.

**Section A.9 Local Procurement requires that IRD obtains additional Geo Code waiver approval for all Local Procurements above the \$5MIL**

Section A.9 of the cooperative agreement states:

*"The authorized geographic code for local procurements is 935, as set forth in 22 CFR 228.40 Local Procurement as amended and ADS Chapter 311. This blanket waiver effectively establishes (per USAID award) a single \$5 million threshold for local procurement to replace those individual thresholds currently set forth in 22 CFR 228.40 Local Procurement and ADS Chapter 311. Under the authority of this blanket waiver, [IRD] may now purchase:*

- *up to \$5 million of commodities of U.S. origin from local suppliers; OR*
- *up to \$5 million of commodities of geographic code 935 origin from local suppliers; OR*
- *up to \$5 million of professional services contracts from local suppliers; OR*
- *any combination of these commodities and professional services not to exceed \$5,000,000.*

***If the total amount of purchases of goods and services reaches the \$5 million threshold authorized in the waiver, then the requirements for local procurement revert to 22 CFR 228.40 (and as supplemented in ADS 311) for any additional purchases above the threshold. "[emphasis added]"***

This clause was a result of the blanket waiver approved by USAID Administrator dated November 24, 2010 (**Attachment A**), which clearly states on Page 4, that "[...] the authorities for waivers to authorize procurements in the cooperating country, 22 C.F.R Sections [Subpart F] 228.51 (a) (4) (v) and 228.53 (d) (4), the basis for this "blanket" waiver, still remain available for use by USAID operating units to authorize cooperating country procurements in excess of \$5 million per award, upon approval of the appropriate and cognizant official as designated by ADS 103 "[emphasis added]"

**Modification #1 provided a contractual blanket Waiver to Geo Code 935, which includes Afghanistan (Local Procurement) in accordance with Subpart F of 22CFR228, as required by Section A.9**

All procurements above the \$5MIL threshold stated in Clause A.9 revert to 22CFR228.40.

22CFR228.40 states in part that "[...] Unless otherwise specified in an implementing document, or a waiver is approved by USAID in accordance with subpart F of this part, local procurement is eligible for USAID financing only in the following situations[...]" ***[emphasis added]***

22CFR228 Subpart F states at § 228.50 General "USAID may expand the authorized source in order to accomplish project or program objectives by processing a waiver. When a waiver is processed to include a new country, area, or geographic code, procurement is not limited to the added source(s), but may be from any country included in the authorized geographic code." ***[emphasis added]***

Modification #1 dated November 12, 2011 to the subject Cooperative Agreement (**Attachment B**) provided a new geographic code 935 which applies to the entire award. All of the local procurement in question (i.e. above the \$5MIL) were covered by Modification #1 and were, therefore, made in accordance with the modified contract As such, all IRD's challenged procurement complied with the contract, as modified.

Modification #1 was issued based on the Annual Review of the Blanket Waiver to code 935 for all Afghanistan Programs and re-approval of such Annual Waiver by the USAID Administrator, Shah, dated December 2010 and December 2011. (**Attachment C. Although IRD does not have a copy of the 2010 and 2011 935 waivers, the attached 2013 Blanket Waiver recalls the history of Annual Waivers for Afghanistan confirming that such waivers were approved every year since 2002).**

Modification #1, which was issued shortly after the contract was issued, superseded and eliminated the requirements of Section A.9 by providing blanket coverage for all procurements under this award. Modification #1 added geographic Code 935, which is defined as Free World including Cooperating Country, therefore making all procurements with



Source/Origin/Nationality Afghanistan (Local Procurement) eligible for financing under this award without the need for additional waiver approval. It would be inconsistent and contrary to contract principles to suggest that the waiver requirement in A.9 and Modification #1, which provides the broad waiver, are both in effect.

Even if the auditors believe that the waiver requirement in Section A.9 was not superseded by Modification #1, Modification #1 satisfies the requirement of Section A.9 for additional waiver approval of local procurement above \$5MIL by adding Geo Code 935 to the entire award. While IRD firmly believes that Modification #1 did technically supersede the waiver requirement, even if it did not, there was no requirement for IRD to obtain any additional waiver approval for procurements over \$5MIL from Afghanistan (i.e. Local Procurement) because of the Modification.

In light of the above, the entire questioned amount of \$28,331,947 is allowable.

**Even if Modification #1 did not exist, USAID's AO waived the requirement for approval of any procurement other than Vendor Services Contracts and Sub-grants above \$150K.**

The auditors' finding states that IRD failed to obtain approval of locally procured commodities/services in the amount of \$28,331,947 because it failed to obtain approval of waiver from the Agreement Officer above the \$5MIL threshold for local procurement contained in Clause A.9 of the Cooperative Agreement.

Although IRD strongly disagrees with this finding based on the above argument that USAID AO provided such approval for all local procurements above \$5MIL by issuing Modification #1, IRD additionally sought and received AO's waiver of ALL OTHER approval requirements except for procurement of services (Vendor Services Contracts/POs) and issuance of sub-grants, both requiring approval only if the amounts is above \$150,000. (**Attachment D**). The approval in the **Attachment D** further clarifies that procurement of all commodities and supplies does not require approval, because such approval is not required by 22CFR226 (c)(8). Additionally 22CFR226 (d) states that "no other prior approval for specific items may be imposed unless a deviation has been approved by OMB".

Consistent with the AO's direction, IRD sought approval of all vendor services contracts and sub-grants above \$150,000 only. (**Attachment E provides a selection of approvals received. All approvals are available for review.**)

**Conclusion:** IRD provided irrefutable documentation which supports the questioned costs in this finding and respectfully requests that all costs be allowed in accordance with the applicable regulations and approvals received by IRD from the USAID Agreement Officer.

**Finding 2015-04 – Financial Management System**

IRD agrees with the finding and has taken a number of steps to address it:

- IRD stopped using g/l accounts named “foreign” and “domestic subcontractors” and replaced them with “US” and “Non-US subcontractors” in February 2015, in order to ensure proper vendor classification.
- IRD stopped using g/l account 61-220-30 Security in February 2015 and started using dedicated activity tasks for tracking security costs in each project using appropriate g/l accounts.
- IRD introduced the Purchasing Module in all field offices using Deltek Costpoint (all but four IRD offices use Costpoint as of the date of this letter). Purchase Orders must be completed for all procurements in excess of \$3,000. This effectively eliminates the issues of consistent vendor naming, g/l account use, purchase order and invoice numbering. IRD HQ International Program Finance team also reviews procurement commitments for all offices on a monthly basis.
- Field Standard Operating Procedures Manual was introduced in October 2014, prescribing standard processes in both the Deltek CostPoint and Intuit QuickBooks environments. IRD continues reviewing and updating the manual to ensure all instances are properly addressed.
- IRD field offices actively participated in all of the described accounting changes via monthly WebEx conferences organized by IRD HQ International Program Finance. All field offices are sent recordings of each WebEx conference to keep for training and reference purposes.

Please advise if you have any questions or need additional information. IRD is available to discuss this response at your convenience.

Sincerely,



Vladan Ilic  
Assistant Vice President, Program Finance

Enclosures: a/s

Cc: B. Nuehring, Partner, Crowe Horwath LLP  
J. Schenk, SIGAR AOR  
R. Ervin, IRD President and CEO  
P. Monsees, IRD Legal Counsel  
D. DuPont, IRD VP Communications & Donor Development  
O. Wall, IRD Director of Contracts and Grants  
IRD SRAD Audit File

## Appendix B: Auditor's Rebuttal

Crowe Horwath LLP, in consideration of the views presented by the management of International Relief and Development, Inc. ("IRD" or "the auditee"), presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. The absence of a rebuttal indicates that Crowe does not deem it necessary to correct or clarify any response of the auditee.

### Finding 2015-03

Crowe has reviewed IRD's response, inclusive of the attachments provided by IRD with the narrative responses. Per review of the documentation, we did not identify any items that modified the conclusions reached in the finding, as originally drafted. With regard to the narrative response, IRD has asserted that the auditor's conclusion is incorrect "because Modification #1 to the award contractually provided...blanket waiver approval in November of 2011 and IRD incurred the costs now challenged as unallowable in reliance upon the contractual waiver set forth in the Modification." Crowe notes that base cooperative agreement award document states, in part, within Section A.9:

The authorized geographic code for procurement of goods and services under this award is 000.

The authorized geographic code for local procurements is 935, as set forth in 22 CFR 228.40, Local Procurement as amended and ADS Chapter 311.

The award document proceeds to address the blanket waiver for local procurements up to the level of \$5 million, in total, and indicates that approvals are required above the \$5 million level in accordance with the provisions of 22 CFR 228.40, as supplemented by ADS Chapter 311.

Modification #1, as referenced by IRD, presents the following unabridged revision to Section A.9:

(e) Attachment A – Schedule, Section A.9 AUTHORIZED GEOGRAPHIC CODE – delete "000" as The authorized Geographic code and insert "935" in lieu thereof.

Neither Modification #1 nor subsequent modifications to the cooperative agreement deleted or otherwise modified the portion of Section A.9 that requires the Agreement Officer's approval for local procurements above the blanket waiver amount of \$5 million.

In addition, IRD notes that geographic code 935 includes Afghanistan and permits the procurement of goods and services from Afghanistan in accordance with 22 CFR 228.40. IRD's eligibility for procurement of goods and services from Afghanistan sources is not in dispute within the finding. Rather, the finding asserts that IRD did not obtain approval to procure certain goods and services above the thresholds mandated by ADS Chapter 311, which supplements 22 CFR 228.40, as cited within the cooperative agreement. We further note that the documentation provided by IRD did not include any waivers or modifications to the requirements of ADS Chapter 311, including the restrictions placed on local procurement. Accordingly, the questioned cost amount presented within the finding has not been modified.

Lastly, IRD asserts that the USAID Agreement Officer waived the requirement for approval of any procurement other than Vendor Services Contracts and Sub-Grants above \$150,000. During audit fieldwork, and as a component of reviewing IRD's management response, Crowe reviewed and considered the correspondence referenced by IRD. We note that the correspondence addresses budgetary and programmatic revisions as per 22 CFR 226; however, the finding and IRD's noncompliance with the agreement's terms and conditions are not predicated upon noncompliance with budgetary and programmatic revisions. The Agreement Officer did not provide a deviation or written modification to the award that revoked the provisions of Section A.9 of the agreement or the requirements of 22 CFR 228.40 (as supplemented by ADS Chapter 311. Accordingly, this component of the management response did not result in a modification to the audit finding, inclusive of the questioned cost amount.

In summary, after considering IRD's management response, the requirements specified in the cooperative agreement, and the November 12, 2014, e-mail correspondence from the USAID Agreement Officer, the finding and questioned cost amounts have not been cleared or otherwise modified.

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