

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-84 Financial Audit

USAID's Afghanistan Electoral Reform and Civic Advocacy Program: Audit of Costs Incurred by Democracy International, Inc.



SEPTEMBER
2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 13, 2009, the U.S. Agency for International Development awarded a \$5.0 million, 140-day cooperative agreement to Democracy International, Inc. (Democracy International) to fund the International Election Observation Mission for the 2009 Presidential and Provincial Council Elections in Afghanistan. The program was intended to conduct election observations and research to strengthen democratic election processes. After 28 modifications, the total cost of the cooperative agreement was increased to \$38.7 million, the period of performance was extended to December 31, 2015, and the program was re-named the Afghanistan Electoral Reform and Civic Advocacy Program (AERCA).

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$6,179,567 in expenditures charged to the cooperative agreement from January 1, 2013, through June 30, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in Democracy International'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 Democracy International has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Democracy International's Special Purpose Financial Statement. See Crowe'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 Crowe did not comply, in all material respects, with U.S. generally accepted government auditing standards.

September 2015

USAID's Afghanistan Electoral Reform and Civic Advocacy Program: Audit of Costs Incurred by Democracy International, Inc.

SIGAR 15-84-FA

WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe) identified two material weaknesses in Democracy International, Inc.'s (Democracy International) internal controls and one instance of noncompliance with regulations. Specifically, Crowe found Democracy International did not have a process in place to monitor subrecipient expenditures under its U.S. Agency for International Development (USAID) awards. Such a process would determine if Democracy International's subrecipients were required to have financial audits of their USAID-funded expenditures. Additionally, Democracy International did not include certain contract provisions within its procurement contracts as required by federal regulations. Although Democracy International has since revised its standard contract templates to prevent omissions in future contracts, Crowe recommended that Democracy International obtain written certification on prior awards from each vendor regarding their compliance with the omitted regulatory provisions.

Crowe did not identify any questioned costs associated with the internal control weaknesses and instance of noncompliance. Questioned costs consist of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Costs Incurred	\$0	\$0	\$0
Totals	\$0	\$0	\$0

Crowe identified two prior audit findings that pertained to Democracy International's implementation of the Afghanistan Electoral Reform and Civic Advocacy Program, and were material to the Special Purpose Financial Statement. The first finding concerned the retention of procurement documentation. Democracy International implemented corrective action, and Crowe did not identify any further concerns about documentation in its audit. The second prior audit finding noted that Democracy International did not include various provisions required by federal regulations and USAID policies within its subcontracts. As noted above, Crowe had a similar finding in its audit, but Democracy International has since revised its standard contract templates to prevent omissions in future contracts.

Crowe issued an unmodified opinion on Democracy International's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, 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:

1. Advise Democracy International to address the report's two internal control findings.
2. Advise Democracy International to address the report's one noncompliance finding.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 2, 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) to audit the costs incurred by Democracy International, Inc. (Democracy International) under a U.S. Agency for International Development (USAID) cooperative agreement to support the Afghanistan Electoral Reform and Civic Advocacy Program.¹ Crowe's audit covered \$6,179,567 in expenditures charged to the cooperative agreement from January 1, 2013, through June 30, 2014. Our contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Advise Democracy International to address the report's two internal control findings.**
- 2. Advise Democracy International to address the report's one noncompliance finding.**

The results of Crowe's audit are detailed in the attached report. We reviewed Crowe'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 Democracy International's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Democracy International's internal control or compliance with agreement, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe did not comply, in all material respects, with U.S. 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-047)

¹ USAID awarded cooperative agreement number 306-A-00-09-00522-00 to Democracy International to implement the Afghanistan Electoral Reform and Civic Advocacy Program, which was intended to conduct observations of the 2009 Presidential and Provincial Council Elections in Afghanistan, and research to strengthen democratic election processes.



Democracy International, Inc.

Special Purpose Financial Statement

Afghanistan Electoral Reform and Civic Advocacy (AERCA) Program

For the Period January 1, 2013, through June 30, 2014

(With Independent Auditor's Report Thereon)

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Transmittal Letter

August 10, 2015

To the Principals of Democracy International, Inc.
7600 Wisconsin Avenue, Suite 1010
Bethesda, MD 20814

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 Democracy International, Inc.'s ("Democracy International") cooperative agreement with the United States Agency for International Development ("USAID") funding the Afghanistan Electoral Reform and Civic Advocacy ("AERCA") 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 Democracy International, 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 report.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of Democracy International's AERCA Program.

Sincerely,

A handwritten signature in black ink, appearing to read "Melinda DeCorte", with a long horizontal flourish extending to the right.

Melinda DeCorte, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

Democracy International, Inc. (“DI” or “Democracy International”) entered into a cooperative agreement with the United States Agency for International Development (“USAID”) on July 13, 2009, to promote good governance and improved security in Afghanistan through the strengthening of democratic electoral systems and processes. The program’s objectives were to conduct election observations and research in order to compliment the U.S. Government’s ongoing efforts to strengthen democratic election systems and processes and to create a basis for democratic change. The program, the International Election Observation Mission for the 2009 Presidential and Provincial Council Elections in Afghanistan, was funded by cooperative agreement number 306-A-00-09-00522-00, which had a total estimated award amount of \$5,000,000. Twenty-eight modifications were subsequently issued that extended the period of performance to December 31, 2015 and increased the ceiling amount to \$38,702,682. During Crowe’s audit period – January 1, 2013, through June 30, 2014 – DI incurred \$6,179,567 in Federal costs. Effective January 24, 2012, with the execution of modification number 14 to the agreement, the project was re-named the Afghanistan Electoral Reform and Civic Advocacy (“AERCA”) Program.

Throughout the program’s period of performance, DI supported an Afghan-led electoral reform process by engaging with reform-minded civil society activists and advocacy organizations and facilitating public opinion research on electoral reform issues. Key programmatic outcomes to date include (unaudited by Crowe):

- DI provided learning opportunities for Afghan election stakeholders, including civil society leaders, political parties, and members of parliament, on various models of electoral systems and administration through training sessions in Kabul and through study tour trips to India, Mexico, South Africa, and New Zealand.
- DI provided essential support to the formation of the Afghanistan Civil Society Elections Network (ACSEN), which currently has more than 150 CSO members that advocate on election-related issues.
- DI has awarded numerous grants to civil society organizations conducting civic education, public outreach, and advocacy activities throughout Afghanistan.
- DI conducted nationwide surveys in 2011, 2012, and 2014 on public perception of democracy, elections, and governance and in 2010 on voter attitudes towards the parliamentary elections.
- DI is supporting the expansion of the National Centre for Policy Research (NCPR) research network and building the capacity of CSOs to conduct high quality research and monitoring and evaluation of their project activities. DI has also provided training to journalists on how to effectively report research.

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 DI’s AERCA 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 DI'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 DI 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 January 1, 2013, through June 30, 2014, for the AERCA 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;
- Procurement;
- Reporting; and
- Subrecipient Monitoring.

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 DI. 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 of the cooperative agreement executed by and between DI and USAID and subsequent modifications, 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, letter of credit draw downs, procurements, property and equipment dispositions, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess DI'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 DI 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 two audit reports. Of the two reports, one was related to DI's AERCA program. The report included four findings – two of which required follow-up by Crowe.

The second report pertained to an audit of DI's FY2012 Incurred Cost Submission. There were no findings included within the report that are direct and material to the SPFS. Certain findings were identified that impact the auditee's indirect cost calculation; however, evaluation of the indirect cost rate calculation is not considered to be within Crowe's scope. Further, USAID did not provide to Crowe a final determination regarding the audit results. Therefore, there were no recommendations on which to follow-up.

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 SPFS.

With regard to matters of internal control and compliance, Crowe identified two 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 or in writing to DI within a letter issued to management dated July 29, 2015.

Crowe also reported on both DI'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 and one instance of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. There were no costs questioned in association with the findings.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to DI's financial performance under the cooperative agreement. Per communications with DI and USAID, there were two such audit reports issued during the years that the AERCA Program was active. Two audit findings required follow-up by Crowe. Crowe determined that Democracy International has taken adequate corrective action to address these two prior findings. The results of the follow-up procedures and the status of the findings are noted within SECTION 2.



Summary of Management Comments

Management concurred with both audit findings.

References to Appendices

The auditor's reports are supplemented by one appendix - **Appendix A** containing the Views of Responsible Officials.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Principals of Democracy International, Inc.
7600 Wisconsin Avenue, Suite 1010
Bethesda, MD 20814

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 Democracy International, Inc. ("DI"), and related notes to the Statement, for the period January 1, 2013, through June 30, 2014, with respect to the Afghanistan Electoral Reform and Civic Advocacy Program funded by cooperative agreement number 306-A-00-09-00522-00.

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.

(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 DI 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-00-09-00522-00, 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.

Restriction on Use

This report is intended for the information of Democracy International, 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 July 29, 2015, on our consideration of DI'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 DI's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

July 29, 2015
Washington, D.C.

Democracy International, Inc.
Afghanistan Electoral Reform and Civic Advocacy Program
Cooperative Agreement 306-A-00-09-00522-00
Special Purpose Financial Statement
For the Period January 01, 2013 to June 30, 2014

			<u>Questioned Costs</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<u>REVENUE</u>					
Revenue from Grant	\$ 31,500,000	\$ 6,179,567			4
Total Revenue from Grant	\$ 31,500,000	\$ 6,179,567			
<u>COSTS INCURRED</u>					
Labor	\$ 8,117,918	\$ 1,314,220			5
Fringe Benefits	\$ [REDACTED]	\$ [REDACTED]			
Travel and Per Diem	\$ 3,186,315	\$ 356,491			
Allowances	\$ 2,347,634	\$ 666,966			
Supplies and Equipment	\$ 130,316	\$ 90,203			
Contractual	\$ 9,030,776	\$ 1,615,670			
Other Direct Costs	\$ 7,445,009	\$ 646,638			
Indirect Costs	\$ [REDACTED]	\$ [REDACTED]			
Total Costs Incurred	\$ 38,702,682	\$ 6,179,567			2, 10
Balance		\$ -			6

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

Democracy International, Inc.
Notes to the Special Purpose Financial Statement
For the Period January 01, 2013 through June 30, 2014

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement number 306-A-00-09-00522 for the Afghanistan Electoral Reform and Civic Advocacy ("AERCA") Program for the period January 01, 2013 through June 30, 2014. Because the Statement presents only a selected portion of the operations of Democracy International, Inc. ("DI" or "Democracy International") it is not intended to and does not present the financial position, changes in net assets, or cash flows of Democracy International, Inc. 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 306-A-00-09-00522. 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 conformity with the terms of the Agreement and generally accepted accounting principles and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 48, Part 31 of the U.S. Code of Federal Regulations, which contains the Federal Acquisition Regulation ("FAR") Contract Cost Principles and Procedures, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

Foreign currency conversions are converted at the average exchange rate for the period as provided by the local bank at which the US dollar is converted to foreign currency prior to vendor payment.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which Democracy International is entitled to receive from USAID for allowable, eligible costs incurred under the cooperative agreement during the period of performance. Revenue is recognized at the time an eligible cost is incurred under the award.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the USAID-approved Cooperative Agreement number 306-A-00-09-00522 adopted as a component of the modification number #19 to the contract dated February 27, 2014. The budgetary amounts reported reflect the total award budget amount and is not specific to the period covered by the Statement.

Note 6. Balance

The balance presented on the Statement represents draw receivables for the difference between revenues earned through draw down of the obligated funds and expenses incurred on an accrual basis charged at provisional rates in the NICRA.

Note 7. Currency

All amounts presented are shown in U.S. dollars.

(Continued)

Note 8. Subrecipients

The following table presents the names of each subrecipient and the applicable subaward amounts.

Subrecipient Name	Subgrant Number	Subgrant Amount
Afghanistan National Participation Organization	4005-001-ANPO-01	\$20,854
Afghanistan National Participation Organization	4005-001-ANPO-02	\$38,612
Accessibility Organization for Afghan Disabled	4005-001-AOAD-01	\$20,730
Accessibility Organization for Afghan Disabled	4005-001-AOAD-02	\$36,982
Afghan Women Service and Education Organization	4005-001-AWSE-01	\$12,000
Afghan Women Service and Education Organization	4005-001-AWSE-02	\$12,560
Afghanistan Youth National & Social Organization	4005-001-AYNSO-01	\$21,820
Civil Society Development Center Organization	4005-001-CSDC-01	\$23,836
Education International for Poor Women & Girls of Afghanistan	4005-001-ECW-01	\$21,120
Empowerment Center for Women	4005-001-ECW-02	\$37,330
The Electoral Support Organization of Afghanistan	4005-001-ESOA-01	\$746,120
Foundation for Culture and Civil Society	4005-001-FCCS-01	\$24,700
The Free and Fair Forum of Afghanistan	4005-FEFA-001	\$19,920
Future Leaders Organization	4005-001-FLO-01	\$11,300
National Development Support Organization	4005-001-NDSO-01	\$20,826
National Development Support Organization	4005-001-NDSO-02	\$36,630
National Center for Policy Research	4005-NCPR-02	\$87,500
Suli Paigham Radio	4005-001-PMR-01	\$23,540
Reconstruction & Social Service for Afghanistan Organization	4005-001-RSSAO-01	\$12,000
Saba Media Organization	4005-001-SMO-01	\$23,000
Transparent Election Foundation of Afghanistan	4005-001-TEFA-01	\$5,000
Transparent Election Foundation of Afghanistan	4005-001-TEFA-02	\$19,880
Training and Human Rights Association of Afghan Women	4005-001-THRA-01	\$24,420
Training and Human Rights Association of Afghan Women	4005-001-THRA-02	\$36,895

Note 9. Program Status

The Cooperative Agreement 306-A-00-09-00522 for the Afghanistan Electoral Reform and Civic Advocacy Program for the period remains active. The period of performance for the cooperative agreement is scheduled to conclude on December 31, 2015, as noted in modification number 19 dated February 27, 2014. Accordingly, adjustments to amounts currently reported on the Special Purpose Financial Statement may be made as a result of final negotiated indirect cost rates agreement.

(Continued)

Note 10. Program Financial Status

The SPFS addresses the period January 1, 2013, through June 30, 2014, which represents only a portion of the total AERCA period of performance. Cumulatively, as of June 30, 2014, DI had incurred \$30,128,990 in costs and earned the corresponding amount of revenue. Due to DI's functioning on a reimbursement basis, \$29,832,200 had been drawn down from the Letter of Credit account as of June 30, 2014.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the January 1, 2013, through June 30, 2014, end of the period covered by the Statement. Management has performed their analysis through July 29, 2015.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Principals of Democracy International, Inc.
7600 Wisconsin Avenue, Suite 1010
Bethesda, MD 20814

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 Democracy International, Inc. ("DI"), and related notes to the Statement, for the period January 1, 2013, through June 30, 2014, with respect to the Afghanistan Electoral Reform and Civic Advocacy ("AERCA") Program funded by cooperative agreement number 306-A-00-09-00522-00. We have issued our report thereon dated July 29, 2015.

Internal Control over Financial Reporting

Democracy International'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 cooperative agreement; 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 January 1, 2013, through June 30, 2014, we considered DI'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 DI'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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2015-01 and 2015-02 to be material weaknesses.

We noted certain matters that we reported to DI's management in a separate letter dated July 29, 2015.

Democracy International, Inc.'s Response to Findings

Democracy International'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 Democracy International, 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

July 29, 2015
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Principals of Democracy International
7600 Wisconsin Avenue, Suite 1010
Bethesda, MD 20814

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 Democracy International, Inc. ("DI"), and related notes to the Statement, for the period January 1, 2013, through June 30, 2014, with respect to the Afghanistan Electoral Reform and Civic Advocacy ("AERCA") Program funded by cooperative agreement number 306-A-00-09-00522-00. We have issued our report thereon dated July 29, 2015.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement is the responsibility of the management of Democracy International.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in Finding 2015-02 in the accompanying Schedule of Findings and Questioned Costs.

Democracy International, Inc.'s Response to Findings

Democracy International'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.

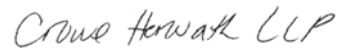
Purpose of this Report

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.

(Continued)

Restriction on Use

This report is intended for the information of Democracy International, 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.

A handwritten signature in dark ink that reads "Crowe Horwath LLP". The script is cursive and fluid.

Crowe Horwath LLP

July 29, 2015
Washington, D.C.

SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2015-01: Monitoring Foreign Subrecipients' Compliance with USAID Audit Requirements

Material Weakness

Criteria: ADS Chapter 591, *Financial Audits of USAID Contractors, Recipients, and Host Government Entities*, Section 591.3.2.1(a) states, "Foreign nonprofit organizations, host governments, and subrecipients that expend \$300,000 or more in USAID awards (i.e., organizations that receive USAID funds either directly or through a prime contractor or recipient) during their fiscal year, must have an annual audit conducted of those funds in accordance with the **Guidelines for Financial Audits Contracted by Foreign Recipients.**"

Condition: Democracy International did not have a process in place to monitor subrecipient expenditures under all USAID awards received during the award to determine if the subrecipients were required to have financial audits of their USAID expenditures.

Questioned Costs: None

Effect: Subrecipients may not have complied with certain USAID financial assistance regulations that could have an impact on the financial records pertinent to the AERCA award. In the absence of the audit reports, DI may be unaware of such instances of noncompliance and the potential impact.

Cause: DI did not consider the risk to be high due to the small value of its subawards.

Recommendation: We recommend that DI 1) incorporate the annual foreign recipient audit requirement in the sub-agreement; and 2) develop a standard certification for distribution to subrecipients on an annual basis asking that the subrecipients either provide a copy of their audit reports or otherwise certify that the audit requirement was not triggered and provide the total amount of USAID funds expended during the applicable fiscal year.

Finding 2015-02: Standard Award and Contract Provisions

Material Weakness and Non-Compliance

Criteria: Pursuant to Title 22, Part 226.48 of the Code of Federal Regulations, “All contracts, including small purchases, awarded by recipients and contractors shall contain the procurement provisions of Appendix A to [22 CFR Part 226], as applicable. Whenever a provision is required to be inserted in a contract under an agreement, the recipient shall insert a statement in the contract that in all instances where the U.S. Government or USAID is mentioned, the recipient’s name shall be substituted.”

In addition, Attachment C to Democracy International's cooperative agreement states:

- a) All provisions of 22 CFR Part 226 and all Standard Provisions attached to this agreement are applicable to the recipient and to sub-recipients. The recipient shall assure that sub-recipients have copies of all the attached standard provisions.”
- b) For any sub-awards made with Non-US sub-recipients the Recipient shall include the applicable “Standard Provisions for Non-US Nongovernmental Cooperative Agreementtees.” Recipients are required to ensure compliance with monitoring procedures in accordance with OMB Circular A-133.

Condition: Democracy International did not include certain contract provisions required by 22 CFR Part 226.48 within its procurement contracts. The table below summarizes the omissions with respect to the contract provisions.

Missing Applicable Provision	Procurement Contracts Tested	Contracts Not Including the Required Provisions
Byrd Anti-Lobbying Amendment (31 U.S.C. 1352) (Appendix A7)	4	3
Debarment and Suspension (E.O.s 12549 and 12689) (Appendix A8)	4	3

In addition, DI did not include all standard provisions in its subaward agreements as required by Attachment C, Cooperative Agreement No. 306-A-00-09-00522-00 and modifications. The following table summarizes the omissions with regard to the subaward agreements.

Missing Applicable Provisions	Sub-grant Agreements Tested	Agreements Not Including Provision
22 CFR Part 226	6	6
Contract Section C.10 Debarment, Suspension, And Other Responsibility Matters (January 2004)	6	6
Cooperative Agreement Modification Number 7: a. Special Provision for Performance in Afghanistan (July 2010); and b. Serious Incident Reporting In Afghanistan (December 2010).	6	6
Cooperative Agreement Modification Number 15: Marking Under USAID-Funded Assistance Instruments (December 2005).	6	6

We noted that, during the award's period of performance, DI modified its standard contract template to include references to the USAID Standard Provisions and the required contract flow-down provisions. In addition, we obtained and reviewed DI's standard subaward template which included references to the required provisions. The revised templates were developed and implemented subsequent to issuance of the contracts referred to above.

(Continued)

Questioned Costs: None

Effect: Vendors and sub-recipients may not have been fully aware of applicable compliance requirements.

Cause: Democracy International was unaware of the required flow down provisions at the time that the awards were made to the applicable vendors and subawardees.

Recommendation: We recommend that DI request and obtain a written certification from each vendor or subawardee regarding its compliance with the omitted regulatory provisions. Upon receipt of the certifications, if a vendor or subrecipient indicates that it was non-compliant with the applicable provisions, then we recommend that DI complete an assessment to identify whether or not the noncompliance results in a financial impact on the award.

SECTION 2: Summary Schedule of Prior Audit and Review Findings

Crowe reviewed two audit reports that included Democracy International's AERCA Program within their scope. Upon review of the reports, two findings were noted that could have a direct and material effect on the Special Purpose Financial Statement. Both of the findings were identified within the *Financial Audit of the Democracy International (DI) Under Afghanistan Electoral Reform and Civic Advocacy (AERCA) Program, Cooperative Agreement Number, 306-A-00-09-00522, For the Period From July 13, 2009 to September 30, 2012, Audit Report No. F-306-14-011-N*, as issued by the USAID Office of Inspector General. Accordingly, Crowe conducted follow-up procedures regarding the findings. The following summaries reflect the status of the prior audit findings.

Finding 2013-01: Procurement documentation needs to be retained (Significant Deficiency)

Issue: 18 of 35 vendor files did not include quote documentation to support the bid listed on the evaluation summary.

Status: DI amended its internal procedures to require the original procurement documentation be provided to the headquarters office and retained along with financial records. During Crowe's procedures, we identified one instance in which original bid documentation was not available. Per discussion with DI, this matter occurred prior to DI's implementation of corrective action. This finding is not repeated.

Finding 2013-02: Lack of Proper Provision Requirements (Material Non-Compliance)

Issue: Pursuant to both FAR and USAID Operational Policy provisions, DI was required to include certain contract provisions within its subcontracts. However, DI did not include various provisions within its subcontracts, including:

- Title 22, Part 226 of the Code of Federal Regulations
- Debarment, Suspension, And Other Responsibility Matter
- Trafficking in Person
- Terrorism
- Drug trafficking as defined in 22 CFR Part 140
- Reporting of Foreign Taxes (March 2006)

Status: During our testing procedures, we identified a series of procurement contracts and subaward agreements that were missing required contract provisions and/or USAID Standard Provisions. This finding has been repeated as noted within Finding No. 2015-02. With respect to corrective action, we noted that DI has completed revisions to its standard contract and subaward templates to incorporate the required provisions and to prevent omissions going forward.

Appendix A: Views of Responsible Officials



August 4, 2015

Crowe Horwath LLP
1325 G Street NW, Suite 250
Washington, DC 20005

The Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

Subject: DI Management Response to Crowe Horwath Audit of the Afghanistan Electoral Reform and Civic Advocacy (AERCA) program

To Whom It May Concern:

This letter is in response to the draft financial audit report Democracy International, Inc. ("DI") received from Crowe Horwath on July 30, 2015. We would like to thank the members of Crowe Horwath's team that conducted this audit for their professionalism and, particularly, for their communication throughout the audit process, which we considered exemplary.

First, we are pleased that this audit did not identify any questioned costs. We are also pleased that a review of DI's Special Purpose Financial Statement concluded that it "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 (SIGAR)..." We greatly appreciate the opportunity to work on behalf of the U.S. Agency for International Development (USAID) and the American people in Afghanistan. We take our responsibility as stewards of U.S. taxpayer dollars with the utmost seriousness and believe we have no margin for error in ensuring that every dollar we are entrusted with is spent consistent with the federal regulations that govern foreign assistance and in furtherance of the goals articulated in our cooperative agreement with USAID. We believe our performance in this and other audits underscores the seriousness of our commitment.

We understand that the audit did identify two material weaknesses and one instance of non-compliance, which have been consolidated into two findings. We appreciate the opportunity provided to us in this management response to address these findings.

Response to Schedule of Findings

1. Finding 2015-01: Monitoring Foreign Subrecipients' Compliance with USAID Audit Requirements - Democracy International did not have a process in place to monitor subrecipient expenditures under all USAID awards received during the award to determine if the subrecipients were required to have financial audits of their USAID expenditures (pg. 16)

DI acknowledges the provisions of ADS Chapter 591, Financial Audits of USAID Contractors, Recipients, and Host Government Entities, Section 591.3.2.1, which require that subrecipients that expend \$300,000 or more in USAID awards be subject to an annual audit. While DI did not have any subawards approaching this value, we recognize the need to improve our practices to ensure compliance with the provision and agree with the finding.

Currently, prior to execution of agreements and any distribution of funds, DI requests its subrecipients to complete a Financial and Management Capacity Questionnaire and provides these recipients with an orientation training that covers key financial management and compliance issues. The requirements of ADS 591.3.2.1 are discussed in this training. Based on this finding, DI will amend the Financial and Management Capacity Questionnaire to include a question about the amounts of other USAID funding the recipient may be receiving.

DI's current subaward template includes the Accounting, Audit, and Records (December 2012) standard provision, which contains this requirement. All active subawards under the subject cooperative agreement include this provision. DI will review its active subawards under other USAID cooperative agreements that DI manages as well to ensure they contain the provision. As recommended by Crowe Horwath (pg. 16), DI will develop a standard certification for distribution to subrecipients on an annual basis asking that these recipients either provide an audit report or certify in writing that they have not received USAID funding in excess of the \$300,000 threshold. Implementation of these changes is currently underway and is being led by DI's new Global Compliance Director.

2. Finding 2015-02: Standard Award and Contract Provisions - Democracy International did not include certain contract provisions required by 22 CFR Part 226.48 within its procurement contracts.(pg. 17)

DI acknowledges the provision in Title 22, Part 226.48 of the Code of Federal Regulations (22 CFR Part 226) that requires all contracts and subawards issued by recipients and contractors contain certain flow-down provisions. We are cognizant of the fact that a number of the procurement contracts and subgrants that were tested did not contain some provisions (listed in detail on pg. 17 of the draft audit report) and thus agree with this finding.

We believe, however, that today we are in full compliance with the requirements of 22 CFR Part 226. We note that the audit report points out that, after a review of DI's current subcontract and subaward templates, Crowe Horwath came independently to the same opinion. As Crowe Horwath notes (pg. 17), DI recently modified its standard contract template to included references to the USAID standard provisions and the required contract flow-down provisions. As the report also notes (pg. 17), DI's current standard subaward template does included references to the required provisions. These revised templates were developed and implemented after the issuance of the subcontracts and subawards tested in this audit and as a result of a previous audit finding referenced in the report (pg. 19). DI spent considerable time and effort reviewing and improving its templates, both internally and with outside counsel, to ensure we are in compliance when issuing subcontracts and subawards. We appreciate the confirmation by Crowe Horwath in the audit report that our templates today do, in fact, contain the required provisions.

Conclusion

Again, we would like to thank Crowe Horwath for its professionalism throughout the audit process. We would also like to thank SIGAR, whose missions of promoting efficiency and effectiveness of reconstruction programs and detecting and preventing waste, fraud, and abuse are ones DI is wholly committed to. While we are pleased that our hard work in managing this cooperative agreement has resulted in a positive review, we are also committed to continuing to review and improve our policies and procedures. We thank Crowe Horwath for the opportunity to learn from this audit, and we thank USAID for its continuing faith in DI's ability to manage this cooperative agreement responsibly and to conduct this important project. We would be happy to address any additional questions at any time.

Sincerely yours,



Jed Ober
Senior Director of Programs

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
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- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202