

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 16-4 Financial Audit

Department of State's Promotion and
Protection of Afghan Women's Rights in
Afghanistan Program: Audit of Costs
Incurred by Women for Afghan Women



OCTOBER
2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 3, 2011, the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) awarded an initial 3-year, \$5.7 million grant to Women for Afghan Women (WAW) to support the Promotion and Protection of Afghan Women's Rights in Afghanistan program. The program was intended to improve awareness of individual and human rights, conduct outreach campaigns, and prevent and reduce violence against women and girls. After two modifications, program funding increased to more than \$6.8 million, and the period of performance was extended to June 3, 2014.

SIGAR's financial audit, performed by Davis and Associates Certified Public Accountants, PLLC (Davis), reviewed \$6,803,484 in expenditures charged to the grant from March 5, 2011, through June 3, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in WAW's internal controls related to the grant; (2) identify and report on instances of material noncompliance with the terms of the grant and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether WAW has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of WAW's Special Purpose Financial Statement. See Davis's report for the precise audit objectives.

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

October 2015

Department of State's Promotion and Protection of Afghan Women's Rights in Afghanistan Program: Audit of Costs Incurred by Women for Afghan Women

SIGAR 16-4-FA

WHAT THE AUDIT FOUND

Davis and Associates Certified Public Accountants, PLLC (Davis) identified one material weakness and one significant deficiency in Women for Afghan Women's (WAW) internal controls, one instance of noncompliance, and two instances of material noncompliance with the terms and conditions of the grant. Specifically, Davis found that WAW did not properly calculate the currency exchange rate, which resulted in WAW overbilling the U.S. government by \$204,844. Additionally, Davis found that WAW charged the government \$126,219 for New York-based positions, but WAW was unable to provide adequate supporting documentation for these costs. WAW also charged the government for ineligible costs, such as its executive director's tax penalties and materials purchased from Iran. Based on Davis's review of the supporting documentation, WAW charged the government for its executive director's Afghan income taxes, including fines for tax penalties. In addition, WAW purchased some Iranian materials, including gas cylinders, carpet, plastic chairs, and cable line; however, the purchase of materials from Iran is not allowable under U.S. government awards. In addition, Davis found that WAW did not competitively procure or provide adequate support justifying the use of sole source rented office space at a cost of \$717,933 to the government.

As a result of these internal control deficiencies and instances of noncompliance, Davis identified \$1,083,283 in total questioned costs, consisting of \$844,152 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$239,131 in ineligible costs—costs prohibited by the grant, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Other Direct Costs	\$239,131	\$844,152	\$1,083,283
Totals	\$239,131	\$844,152	\$1,083,283

Davis did not identify any prior audits, reviews, or evaluations that pertained to WAW's activities under the Promotion and Protection of Afghan Women's Rights in Afghanistan (PPAWRA) program. WAW and the Department of State also indicated that there were no prior audit findings that could have a material effect on the Special Purpose Financial Statement.

Davis issued a modified opinion on the Special Purpose Financial Statement due to unreasonable and unsupported program costs, such as the improper currency exchange rate used, a lack of competitive procurement bids, and insufficient supporting documentation for administrative costs.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible grant officer at the Department of State:

1. **Determine the allowability of and recover, as appropriate, \$1,083,283 in total questioned costs identified in the report.**
2. **Advise WAW to address the report's two internal control findings.**
3. **Advise WAW to address the report's three noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

October 16, 2015

The Honorable John F. Kerry
Secretary of State

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

We contracted with Davis and Associates Certified Public Accountants, PLLC (Davis) to audit the costs incurred by Women for Afghan Women (WAW) under a Department of State Bureau of International Narcotics and Law Enforcement Affairs grant to support the Promotion and Protection of Afghan Women's Rights in Afghanistan program.¹ Davis's audit covered \$6,803,484 in expenditures charged to the grant from March 5, 2011, through June 3, 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 grant officer at the Department of State:

- 1. Determine the allowability of and recover, as appropriate, \$1,083,283 in total questioned costs identified in the report.**
- 2. Advise WAW to address the report's two internal control findings.**
- 3. Advise WAW to address the report's three noncompliance findings.**

The results of Davis's audit are detailed in the attached report. We reviewed Davis's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on WAW's Special Purpose Financial Statement. We also express no opinion on the effectiveness of WAW's internal control or compliance with the grant, laws, and regulations. Davis is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Davis did not comply, in all material respects, with 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-058)

¹ The Department of State awarded grant number SINLEC11GR017 to WAW to support the Promotion and Protection of Afghan Women's Rights in Afghanistan program, which was intended to improve awareness of individual and human rights, conduct outreach campaigns, and prevent and reduce violence against women and girls.

DAVIS AND ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS, PLLC

FINANCIAL AUDIT

OF

COSTS INCURRED BY WOMEN FOR AFGHAN WOMEN (WAW) UNDER GRANT
NUMBER SINLEC11GR017 TO SUPPORT THE PROMOTION AND PROTECTION OF
AFGHAN WOMEN'S RIGHTS IN AFGHANISTAN PROGRAM
PERIOD MARCH 5, 2011 THROUGH JUNE 3, 2014

TABLE OF CONTENTS

Transmittal Letter.....	2
Executive Summary	3
Background	3
Work Performed.....	3
Objectives Defined by SIGAR.....	4
Summary of Audit Results.....	5
Consolidated Special Purpose Financial Statement	6
Notes to the Special Purpose Financial Statement.....	7
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement.....	10
Independent Auditor’s Report on the Special Purpose Financial Statement	11
Independent Auditor’s Report on Internal Control	13
Independent Auditor’s Report on Compliance	15
Detailed Audit Findings	17
Appendix A – WAW Management Response	28
Appendix B – Auditor Further Response.....	31

September 29, 2015

TRANSMITTAL LETTER

To: To the President, Women for Afghan Women (WAW)
15824 73rd Avenue
Fresh Meadows, New York 11366

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

From: Davis and Associates Certified Public Accountants, PLLC

Subject: Financial Audit of Costs Incurred by Women for Afghan Women (WAW) under grant number
SINLEC11GR017 for the period March 5, 2011 through June 3, 2014

This letter transmits the final audit report of the subject effort. We issued a modified opinion on the fairness of the presentation of the Special Purpose Financial Statement. Our audit disclosed \$1,083,283 of costs that were required to be questioned in the Special Purpose Financial Statement. Our audit detected three instances of non-compliance and two significant deficiencies in internal controls; we consider one of these to be a material weakness.

Davis & Associates

Davis and Associates Certified Public Accountants, PLLC

211 North Union Street

Suite 100

Alexandria, Virginia 22314

EXECUTIVE SUMMARY

Background

On March 3, 2011, the Department of State (DoS), Bureau of International Narcotics and Law Enforcement Affairs (INL) signed an initial \$5.7 million a three-year grant agreement with Women for Afghan Women (WAW) to support the promotion and protection of Afghan women's rights in Afghanistan program. The program expected outcomes were (1) improved awareness of individual and human rights among the Afghan Population; (2) civil society organizations conduct outreach campaigns to increase public awareness of legal rights targeted at Provincial and district level leaders; (3) prevent and reduce violence against women and girls in project area(s) through the establishment and operation of services or dissemination of knowledge on rights. The agreement was amended for over \$1 million in August 23, 2012 to establish and operate family guidance centers and women centers in various provinces and adding a children's support center in Kabul.

Our audit covers the period of performance from March 5, 2011 through June 3, 2014, during which WAW incurred costs totaling \$6,803,484.

Work Performed

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

Methodology - Procedures Performed

Scope

We conducted our audit from April 21, 2015, through July 16, 2015, for the project implemented by WAW. The period covered under this audit was March 5, 2011 through June 3, 2014. The total amount of unburdened direct costs for the period under audit was \$6,803,484. We selected \$2,144,000 of that population for substantive testing.

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

- The agreements between DoS and WAW.
- The sub-agreements between WAW and other implementing entities, as applicable.
- Contracts and subcontracts with third parties, if any.
- The budgets, implementation letters and written procedures approved by DoS.
- OMB A-122, Cost Principles for Non-Profit Organizations
- All program financial and progress reports; charts of accounts; organizational charts; accounting systems descriptions; procurement policies and procedures; and receipt, warehousing and distribution procedures for materials, as necessary to successfully complete the required work.

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

Special Purpose Financial Statement

We examined WAW's Special Purpose Financial Statements by budgeted line item under the agreement, including the budgeted amounts by category and major items. We reviewed OMB Circular A-122 to ensure that all costs incurred in Afghanistan and the U.S. under the DoS -funded agreement were allocable, reasonable,

properly supported, allowable and properly included by WAW in the Special Purpose Financial Statements by category and major item.

Internal Controls

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

Compliance with Laws and Regulations

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

Follow Up to Prior Audit Recommendations

We inquired of management as to whether or not any prior audit or compliance reviews had been performed with respect to the project under audit.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether WAW's 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 generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 - Internal Controls

Evaluate and obtain a sufficient understanding of WAW'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 WAW 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 WAW 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.

Summary of Audit Results

Special Purpose Financial Statements

We issued a modified opinion on the fairness of the presentation of the Special Purpose Financial Statement. [See *Independent Auditor's Report on the Special Purpose Financial Statements*, Page 11]

We determined that there was an adequate accounting system in place to properly account for and classify costs incurred; however, WAW did not properly exclude some unallowable costs. Our audit disclosed \$1,083,283 of costs that were required to be questioned in the Special Purpose Financial Statement. [See *Detailed Audit Findings*, Page 18]

Table 1 - Summary of Findings and Questioned Costs

Finding Number	Nature of Findings	Matter	Questioned Costs Description	Total Amount Questioned
WAW 1	Material Weakness in Internal Control	Improper Currency Exchange Rates	Ineligible	\$204,844
WAW 2	Significant Deficiency in Internal Control	New York Office Costs Charged Without Supporting Documentation	Unsupported	\$126,219
WAW 3	Non-Compliance	Payment of Fines in Tax Penalties	Ineligible	\$30,542
WAW 4	Material Non-Compliance	Purchase of Material from Restricted Source; Cost Incurred in Excess of Established Rates and Costs Incurred Outside Period of Performance	Ineligible	\$3,745
WAW 5	Material Non-Compliance	Lack of Competitive Procurement Bids for Rental Office Building	Unsupported	\$717,933
			Total Questioned Costs	\$1,083,283

Internal Controls

Our audit detected two significant deficiencies in Internal Control; we consider one of these to be a material weakness. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. [See *Independent Auditor's Report on Internal Control*, Page 13]

Compliance with Laws and Regulations

Our audit detected one instance of non-compliance and two instances of material non-compliance that are required to be reported. [See *Independent Auditor's Report on Compliance*, Page 15]

Follow Up to Prior Audit Recommendations

We also requested copies of prior audits, reviews and evaluations related to WAW's work under grant. Per communication with WAW and DoS, there were no prior audit findings that could have a material effect on the special purpose financial statement.

The management comments are included in [Appendix A](#); our responses to these comments are included in [Appendix B](#).

Exhibit I
Women for Afghan Women
Consolidated Special Purpose Financial Statement
March 5, 2011 through June 3, 2014

		Questioned Costs		
	Actual for the Period	Unsupported Costs	Ineligible Costs	Notes
Revenue	\$ 6,803,484	\$ -	\$ -	3
Total Revenue	\$ 6,803,484	\$ -	\$ -	
Costs Incurred				
Personnel	\$ 2,900,998	\$ -	\$ -	4
Fringe	\$ 539,249	\$ -	\$ -	4
Travel	\$ 135,069	\$ -	\$ -	4
Equipment	\$ 550,660	\$ -	\$ -	4
Supplies	\$ 290,082	\$ -	\$ -	4
Other Direct Costs	\$ 2,387,426	\$ 844,152	\$ 239,131	4,A,B,C,D,E
Total Program Amount	\$ 6,803,484	\$ 844,152	\$ 239,131	
Outstanding Fund Balance	\$ -			4

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

Notes to the Special Purpose Financial Statement¹

Note 1 - Status and Operation

Headquartered in Queens, New York and Kabul, Women for Afghan Women (WAW) is a Women's Rights organization founded in 2001 in New York to help women who were victims of domestic violence. WAW held three conferences, two in NYC (2001, 2002) and one in Kandahar (2003), on the situation of women in Afghanistan, and women's rights awareness trainings in provinces where WAW has FGCs. Trainings have reached over 150,000 people, from local citizens to government officials. WAW provides shelters for women and children in Afghanistan, and women empowerment classes, social services to Afghan families residing in New York City and surrounding areas, among other things. It also conducts women rights training to communities in Afghanistan.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement includes costs incurred under Grant Number SINLEC11GR017 with Women for Afghan Women for the period March 5, 2011 to June 3, 2014. Because the Statement presents only a selected portion of the operations of Women for Afghan Women, it is not intended to and does not present the Balance Sheet, Statement of Net Income, or Cash Flows of Women for Afghan Women. The information in this Special Purpose Financial Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and is specific to Grant Number SINLEC11GR017. Therefore, some amounts presented in this Special Purpose Financial Statement may differ from amounts presented in, or used in the preparation of, Women for Afghan Women's Balance Sheet, Statement of Net Income, or Cash Flows.

Basis of Accounting

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

¹ Prepared by WAW Management

Foreign Currency Conversion Method

The operational currency in Afghanistan is the Afghani. Presentation currency is the U.S. Dollar. Currency translations have been done on the following basis.

- Revenues – recorded in U.S. Dollars
- U.S. Expenditures – recorded in U.S. Dollars
- Afghanistan Expenditures – there were no local expenditures under this contract

Average exchange rate for the period under audit:

- U.S. Dollar = 54.88 Afghani

Note 3 – Revenues

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

Note 4 – Major Cost Categories

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

Salaries

Payroll of project personnel in the field, percentage charges of WAW Kabul HQ staff payroll, and International Personnel payroll charges.

Fringe Benefits

Covers health insurance cost of international staff; FICA, SUI, Workers Comp and Disability Insurance for International Staff. Also, covers the fixed payment of \$25/employee per month for National Staff in Afghanistan. Covers the 10% tax payment to Afghan staff – which was part of the previous agreements. The current payroll accounting is based on gross pay for all national staff.

Travel

Covers cost of local travel/ airfare, which includes taxi within the province, airfare from Kabul to Province and vice versa; includes international air ticket cost of staff traveling from New York to Kabul, and other destination for the purposes of advancing WAW's mission and achieving the overall goal of the organization.

Equipment and Supplies

Includes procurement of asset items such as furniture, vehicles, computers, printers, copiers, cameras, etc; and the supplies part includes small IT and Communication supplies, office stationery, other cleaning supplies.

Subcontractors

[N/A]

Sub-recipients

[N/A]

Other Direct Costs

Other direct costs include: WAW Kabul HQ rent, Staff Training cost, Audit fee, Shelters and FGCs rent Utilities, Food and Vehicles Fuel, Repair and Maintenance Cost, Medical and Clothing for women and children.

Indirect Costs

WAW does not have an Indirect Rate Agreement/provision with USG yet.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement²

Unsupported costs – costs not supported with adequate documentation or that did not have required prior approval. Ineligible costs – costs prohibited by the grant agreement, applicable laws, or regulations.

Note A: – Improper Currency Exchange Rates – Ineligible Costs

Finding WAW 1 identified \$204,844 in ineligible costs related to foreign currency exchange. WAW did not have adequate procedures in place to monitor the exchange rate used in its accounting system which resulted in overcharging \$204,844 to the project. *[Please refer to detailed Finding WAW 1 on page 18]*

Note B: – New York Office Costs Without Supporting Documentation

Finding WAW 2 identified \$126,219 in unsupported questioned costs related to administrative activities in their New York office. WAW did not have adequate procedures in place to fully document the work performed by New York staff that would be charged to the project. *[Please refer to detailed Finding WAW 2 on page 20]*

Note C: – Payment of Fines in Tax Penalties – Ineligible Costs

Finding WAW 3 identified \$30,542 in ineligible costs related to the payment of tax penalties. WAW did not have adequate procedures in place to exclude tax fines and penalties from being billed to the project. *[Please refer to detailed Finding WAW 3 on page 22]*

Note D: – Purchase of Material from Restricted Source and Costs Incurred Outside of the Period and in Excess of Established Rates – Ineligible Costs

Finding WAW 4 identified \$3,745 in Ineligible costs related to the purchase of materials from Iran, and costs incurred outside of the period and in excess of established rates. WAW did not have adequate procedures in place to exclude ineligible costs and ensure that goods weren't purchased from restricted sources. *[Please refer to detailed Finding WAW 4 on page 24]*

Note E: - Lack of Procurement Procedures for Office Rentals –Unsupported Costs

Finding WAW 5 identified \$717,933 in unsupported costs related to the improper procurement practices when procuring office rentals. WAW failed to evaluate and document several essential factors prior entering into a contract agreement with its lessors during the period under review, nor did they provide proper justification for a sole source selection. *[Please refer to detailed Finding WAW 5 on page 26]*

² Prepared by Auditor

Independent Auditor's Report on the Special Purpose Financial Statement

To the President, Women for Afghan Women (WAW)
15824 73rd Avenue
Fresh Meadows, New York 11366

Report on the Financial Statements

We have audited, the Special Purpose Financial Statement of the Women for Afghan Women ("WAW") for Grant Number SINLEC11GR017 to support the Promotion and Protection of Afghan Women's Rights in Afghanistan program for the period March 5, 2011 through June 3, 2014, hereinafter referred to as the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of the Special Purpose Financial Statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Special Purpose Financial Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Basis for Qualified Opinion

The results of our tests disclosed the following material questioned costs as detailed in the Special Purpose Financial Statement: (1) \$239,131 in costs that are explicitly questioned because they are not program related, unreasonable, or prohibited by the terms of the agreement; and (2) \$844,152 in costs that are not supported with adequate documentation or did not have required prior approvals or authorizations.

Qualified Opinion

In our opinion, except for the effects of the questioned costs discussed in the basis for qualified opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed by the U.S. Department of State for the period March 5, 2011 through June 3, 2014 in accordance with the terms of the agreement or in conformity with the basis of accounting described in Notes to the Special Purpose Financial Statement, Page 7.

Other Reports Required by Government Auditing Standards

In accordance with U.S. Government Auditing Standards, we have also issued our reports, dated July 16, 2015, on our consideration of WAW's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and the terms and conditions of the grant agreement. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

Restriction on Use

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

Davis & Associates

Alexandria, Virginia

July 16, 2015

Independent Auditor's Report on Internal Control

To the President, Women for Afghan Women
15824 73rd Avenue
Fresh Meadows, New York 11366

We have audited, the Special Purpose Financial Statement of the Women for Afghan Women ("WAW") for Grant Number SINLEC11GR017 to support the Promotion and Protection of Afghan Women's Rights in Afghanistan program for the period March 5, 2011 through June 3, 2014, hereinafter referred to as the financial statements and have issued our report dated July 16, 2015.

Management Responsibility

Management is responsible for establishing and maintaining internal control. Estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the financial statements in conformity with the basis of accounting described in Note 2.

Auditor Responsibility

We conducted our audit in accordance with generally accepted auditing standards in the United States of American and U.S. *Government Auditing Standards* issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected and projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control over Financial Reporting

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

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

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

- WAW did not have adequate procedures in place to monitor the exchange rate used in its accounting system. [Please refer to detailed Finding WAW 1 on page 18]

We consider the following deficiencies in the entity's internal control to be significant deficiencies:

- WAW did not have adequate procedures in place to fully document the work performed by New York staff that would be charged to the project. [Please refer to detailed finding WAW 2 on page 20]

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

Davis & Associates

Alexandria, Virginia
July 16, 2015

Independent Auditor's Report on Compliance

To the President, Women for Afghan Women
15824 73rd Avenue
Fresh Meadows, New York 11366

We have audited, the Special Purpose Financial Statement of the Women for Afghan Women ("WAW") for Grant Number SINLEC11GR017 to support the Promotion and Protection of Afghan Women's Rights in Afghanistan program for the period March 5, 2011 through June 3, 2014, hereinafter referred to as the financial statements and have issued our report dated July 16, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its DoS -funded program.

Auditor's Responsibility

We conducted our audit in accordance with U.S. *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Costs Incurred in Afghanistan and the U.S. is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Schedule of Costs Incurred in Afghanistan and the U.S. amounts.

Compliance and Other Matters

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

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

In performing our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing. The results of our tests disclosed one instance of non-compliance and two instances of material non-compliance that are required to be reported here under Government Auditing Standards and is described in Findings WAW 3, WAW 4 and WAW 5 on pages 22, 24 and 26 respectively.

Purpose of this Report

The purpose of this report is solely to describe the scope of the 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 WAW's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Restriction on Use

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

Davis & Associates

Alexandria, Virginia

July 16, 2015

STATUS OF PRIOR AUDIT FINDINGS

We also requested copies of prior audits, reviews and evaluations related to WAW's activities under the promotion and protection of Afghan women's rights in Afghanistan program. Per communication with WAW and DoS, there were no prior audit findings that could have a material effect on the special purpose financial statement.

DETAILED AUDIT FINDINGS

Finding Number: WAW 1 – Improper Currency Exchange Rates

Nature of Finding: Material Weakness in Internal Control - Ineligible Costs

Condition

WAW incurred a significant amount of its project costs in local currency (Afghanis). WAW converted the amounts from Afghanis to U.S. Dollars using a monthly average rate, when reporting its costs to DoS. However, upon review of the supporting documentation for the costs that were sampled, it became apparent that the same exchange rate (47 AFN/USD) was used for some transactions in 2011, 2012, 2013 and 2014. After discussing with WAW personnel and requesting the actual monthly average exchange rates for the project periods, we found that actual exchange rates fluctuated between 46 and 56 over the period of the project.

Exchange rates in Afghanistan fluctuate throughout the course of a year. It is important to use the relevant exchange rates for a given time period when converting amounts in Afghani back to the U.S. Dollar for accounting and reimbursement purposes. As a result, all of the expenditures that were made in the local currency were potentially over billed when converted back to U.S. dollars.

Periods	Amount in Afghanis (local currency)	Exchange Rate Applied	USD Equivalent Amount Charged	Correct Average Monthly Rate	Correct USD Equivalent Amount	Difference in USD Over/ (Under)
March 2011 - December 2011	18,700,737	47	392,790	46, 47, 48	395,472	(2,682)
January - December 2012	29,075,796	47	616,106	48, 49, 50, 51, 52	572,426	43,680
January - December 2013	34,887,876	47	742,295	50, 54, 56	643,627	98,669
January - May 2014	24,402,644	47	495,340	56.78	430,163	65,177
Total	107,067,053		\$ 2,246,531		\$ 2,041,688	\$ 204,844

Criteria

22 CFR 228.40, *Local procurement, states that:*

22 CFR 230 (A-122), Appendix A, 3.Reasonable costs.

A cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs. The question of the reasonableness of specific costs must be scrutinized with particular care in connection with organizations or separate divisions thereof which receive the preponderance of their support from awards made by Federal agencies.

Because local procurement is taking place using the local currency, amounts must be converted to U.S. Dollars for billing and reimbursement purposes. In order to ensure that the proper exchange rates are being utilized when converting amounts for transactions, there should be procedures in place within the organization to identify the exchange rates regularly to account for variations in the price of the Afghani relative to the U.S. Dollar.

Questioned Costs

We adjusted the local costs using the monthly average rate and estimated that a total amount of \$204,844 was over billed to the U.S. government.

Cause

WAW failed to properly calculate conversion rates and ensure that the rates were applied to its accounting system

Effect

Not adjusting the exchange rates used in the WAW accounting system resulted in inaccurate costs billed to the U.S. Government.

Recommendation

We recommend that WAW put procedures in place to ensure that the exchange rates utilized are accurate and relevant to the period and ensure that the rate is updated periodically, at least monthly. Further, we recommend that WAW reimburse \$204,844 in ineligible questioned costs to DoS that was our estimate of the overbilling, or calculate the amount owed based upon the actual monthly average rate.

Finding Number: WAW 2 – New York Office Costs Charged Without Supporting Documentation
Nature of Finding: Significant Deficiency in Internal Control - Unsupported Costs

Condition

WAW budgeted, and INL approved, an amount of \$4,167 per month for an Administrative position based on its New York Headquarters. Upon review of the vouchers for these costs related to the New York Office, we found that no supporting documentation was attached to the vouchers to support these costs, nor was there any approval from DoS for NY Office administrative costs. We inquired of WAW personnel for supporting documentation and their response was that a fixed amount of \$4,167 per month was charged to the grant for WAW's New York office administrative costs.

We requested supporting documentation for the administrative position, but WAW provided copies of payments for office rent, printing and communication expenses, and one sample copy of an April 2014 payroll sheet for an employee (Administrative Coordinator) whose salary was \$2,500 per month. WAW did not provide any other requested supporting documentation (such as employment contract, timesheet or job description) for the entire audit period to determine whether this person was hired to directly support the project. Additionally, the documentation provided by WAW does not support the fixed amount of \$4,167 per month billed to the project. In conclusion, we determined that WAW never hired any full time employee as an administrative coordinator; instead charged the project for a fixed monthly amount of \$4,167.

Based upon our review of the grant agreement terms and budget, we understand that no indirect costs were requested and approved under this grant agreement and all costs charged to the grant must be direct costs and properly supported by adequate documentation. Considering the condition described above, we questioned a total of \$162,930 (\$4,167 x 39.1 months) for the period from March 2011 to June 3, 2014.

In addition, an amount of the vouchers listed below related to WAW's New York office staff salary and taxes were also questioned because no supporting documentation was found.

Cost Description	Voucher Amount	Questioned Amount	Voucher #	Audit Sample #	Auditor Comments
NY HQ base Administrative costs for the audit period March 2011 – June 3, 2014 (\$4,167 x 39.1 months)	162,930	108,572	Various	177	No supporting documentation was available for 7 vouchers tested during fieldwork. WAW subsequently provided additional supporting documents related to payroll costs and the questioned costs has been reduced by \$54,358.
Tax on International staff salary (Feb - April 2011)	2,465	2,465	JV/95	154	No supporting documentation provided
Tax on International staff salary (May 2014)	11,432	11,432	JV/355	171	No supporting documentation provided
Development & Reporting Officer salary for Aug - Oct 2011 (30% of \$4,167 x 3 months)	3,750	3,750	JV/44	186	No supporting documentation provided
Total Questioned Amount	\$ 180,577	\$ 126,219			

Criteria

WAW's grant agreement budget narrative, Personnel:

1. HQ based Administrator—Manages and administers the grant from WAW HQ in New York.

22 CFR 230 (A-122), Appendix A,

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

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

4. Allocable costs. *a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:*

- (1) Is incurred specifically for the award.*
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or*

Questioned Costs

We questioned \$126,219 in unsupported costs.

Cause

The Auditee did not maintain proper supporting documentation for all costs incurred in Afghanistan and the U.S.

Effect

Not maintaining adequate documentation could allow unallowable costs to be improperly included in the Special Purpose Financial Statement and submitted to DoS for reimbursement.

Recommendation

We recommend that WAW refund \$126,219 in unsupported costs to DoS. We also recommend that WAW provide training to its employees, and amend their policies and procedures to ensure that they consistently comply with federal regulations related to cost principles and ensure that all costs billed to the U.S. Government are adequately supported by documentation.

Finding Number: WAW 3 – Payment of Fines in Tax Penalties**Nature of Finding: Non-Compliance - Ineligible Costs****Condition**

On May 1, 2012, WAW made a payment of back taxes related to its Executive Director salary owed to the Afghan government and charged \$33,035 (50% of \$66,070 paid for three years tax owed) to the project. Based on our review of the supporting documentation and calculation sheet attached to this payment, we found that the tax payment was incorrectly applied to the three years ended March 2012; and the amount paid included payments of fines in tax penalties. We performed recalculation of the allowable amount and determined that of \$33,035 paid, \$3,246 related to the one year project fair share (30% same as the base salary charged for the project period) and is considered allowable and the remaining \$29,789 related to periods before the project or fines that are ineligible costs.

In addition, WAW incurred costs in paying late fee as penalties related to rental property tax and salary withholding tax that were not paid to the Afghan Government on time.

Relating to the above conditions, we questioned a total of \$30,542 in costs listed below.

Cost Description	Voucher Amount	Questioned Amount	Voucher #	Audit Sample #	Auditor Notes
Salary tax and penalty for Executive Director Salary for three years up to March 2012	33,035	29,789	BPV/162	301	Only 30% of one year salary tax is allocable to the project. Fine and Penalty costs are ineligible. In addition, salary tax for period before project period is questioned. Total one year tax in Afs 508,560 (42380 x 12 months). 30% in USD 3, (508,560 / 47 = \$10820 x 30%) Amount questioned \$29,789 (\$33,035 - \$3,246)
Rental property tax penalty (late tax payment for Mazar Office)	3,966	601	BPV/655	83	Fine and Penalty costs are ineligible
Rental property tax penalty (late tax payment for Sar-e-Pol Office)	842	152	BPV/773	97	Fine and Penalty costs are ineligible
Total Questioned Amount	\$37,843	\$30,542			

Criteria

22 CFR 230 (A-122), Appendix B Selected Items of Costs, 16 – Fines and Penalties

Costs of fines and penalties resulting from violations of, or failure of the organization to comply with Federal, State, and local laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of an award or instructions in writing from the awarding agency.

22 CFR 230 (A-122), Appendix A, 4.Allocable costs.

a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.

Questioned Costs

We questioned \$30,542 in ineligible costs.

Cause

WAW did not know that payment of fines related to tax penalties was not allowable under U.S. government awards.

Effect

WAW did not properly follow the applicable regulations, and therefore, DoS was billed \$30,542 in ineligible costs.

Recommendation

We recommend that WAW refund \$30,542 in ineligible costs to DoS. We also recommend that WAW provide training to its employees, and amend their policies and procedures to ensure that they consistently comply with federal regulations related to cost principles and exclude ineligible costs from allowable costs billed to the U.S. Government.

Finding Number: WAW 4 – Purchase of Materials from Restricted Source; Cost Incurred in Excess of Established Rates and Costs Incurred Outside Period of Performance

Nature of Finding: Material Non-Compliance - Ineligible Costs

Condition

WAW purchased some Iranian materials and billed the cost to the project reimbursed by DoS. In another instance, we found that a WAW employee was paid \$19.15 in excess of the approved per diem rate. Also as noted in audit sample # 149 below, the cost of an airfare for the Executive Director for a trip on June 19-20, 2015, occurred after the project end date of June 3, 2014, and therefore, was erroneously charged to the project.

Cost Description	Voucher Amount	Questioned Amount	Voucher #	Audit Sample #	Auditor Notes
Excessive per diem for 2 employees (each paid Afs 1,000 instead of Afs 100)	2,135	38	JV/597	71	Cost in excess of approved rate is ineligible
Purchase of Iranian materials (Gas Cylinders)	1,155	92	JV/43	111	Purchase of Iranian materials under project financed by USG is ineligible
Purchase of Iranian materials (Carpet)	7,651	1,429	JV/40	129	Purchase of Iranian materials under project financed by USG is ineligible
Purchase of Iranian materials (Plastic Chairs)	750	190	JV/50	131	Purchase of Iranian materials under project financed by USG is ineligible
Purchase of Iranian materials (Carpet)	17,444	117	JV/59	132	Purchase of Iranian materials under project financed by USG is ineligible
Purchase of Iranian materials (Cable line)	11,276	19	JV/82	137	Purchase of Iranian materials under project financed by USG is ineligible
Purchase of Iranian materials (Carpet)	735	735	BPV/126	138	Purchase of Iranian materials under project financed by USG is ineligible
International Airfare (June 19-20, 2015) for Executive Director after project end date	1,125	1,125	JV/355	149	Cost incurred after project end date of June 3, 2014, is ineligible
Total Questioned Amount	\$42,272	\$3,745			

Criteria

Iran Sanctions Act of 1996, as Amended, 50 U.S.C. § 1701 note.

*“(5) **Procurement sanction.**--The United States Government may not procure, or enter into any contract for the procurement of, any goods or services from a sanctioned person.*

22 CFR 230 (A-122), Appendix A, 4.Allocable costs.

a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.

Questioned Costs

We questioned \$3,745 in ineligible costs.

Cause

WAW was not aware that the purchase of materials from prohibited sources (including Iran) was not allowable under U.S. government awards.

Effect

WAW did not properly follow the applicable regulations, and therefore, DoS was billed \$3,745 in ineligible costs.

Recommendation

We recommend that WAW refund \$3,745 in ineligible costs to DoS. We also recommend that WAW provide training to its employees, and amend their policies and procedures to ensure that they consistently comply with federal regulations related to procurement under U.S. government awards.

Finding Number: WAW 5 – Lack of Competitive Procurement Bids for Rental Office Building

Nature of Finding: Material Non-Compliance

Condition

Upon review of the rental office building costs for the period under audit, we found that the procurement of rental office building was not in compliance with the requirements set forth under 22 CFR 145 or the procurement processes outlined in the WAW Standard Operating Procedures (SOP) manual.

WAW did not obtain three competitive quotes to exercise a free and open competition nor did it provide a sole source justification memo for the procurement of rental office buildings. Rather, a brief memorandum (see *Cause* below) was prepared by one of WAW personnel recommending a particular office building to be rented, in lieu of open and free competition. **(22 CFR 145.43 – Competition)**

In the memos prepared for procuring rental office buildings, WAW did not include the information essential for a sound procurement process to justify the decision. Below are examples of information or documentation deficiencies in the procurement procedures:

- No information was available about how many other houses were visited before renting the selected house and what were the rent amount and other specifications such as number of rooms, house locations, and size of the house and security of the other houses not selected.
- No explanation or documentation available to show comparison of several house and how the decisions were made, based on costs or other requirements of WAW.
- No documentation to proof WAW Purchasing Committee was involved in these major procurements.

In the absence of free and open competition, WAW did not document their procurement decision in accordance with **22 CFR 145.46 - Procurement records**. As a result, we questioned \$717,933 in unsupported costs as WAW was found non-compliant with Federal procurement regulations and its own SOP Manual.

Criteria

22 CFR 230, Appendix A states: *“To be allowable under an award, costs must meet the following general criteria:*

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.*
- g. Be adequately documented.”*

22 CFR 145.43 – Competition

§ 145.43 Competition, states:

“All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.”

22 CFR 145.46 - Procurement records

§ 145.46 Procurement records, states:

“Procurement records and files for purchases in excess of the small purchase limitation shall include the following at a minimum:

- (a) basis for contractor selection,*
- (b) justification for lack of competition when competitive bids or offers are not obtained, and*
- (c) basis for award cost or price.”*

Purchasing Committee:

To make sure that commodities of good quality are purchased with the reasonably lowest rates, it is advisable that purchase committees shall be appointed for the procurements. The committee shall be consisted of members from three different sections. Normally, members from finance, administration and logistics shall be appointed for the committee.

Quotations

At least three quotations shall be obtained from different suppliers in the name of the agency.

Comparative Statement

After obtaining the quotations, a comparative statement shall be made by the logistics section and shall be handed over to the purchase committee along with the quotations.

Questioned Costs

We questioned \$717,933 in unsupported costs.

Cause

WAW personnel prepared a brief memorandum for the Executive Director approval recommending renting a particular selected office building for DoS funded project. Although, the memorandum was not provided to the Department of State Agreement Officer, WAW management believed this memorandum relieved WAW of the requirement to prepare and document a proper sole-source justifications memo for leasing office buildings.

Effect

Failure to subject procurements over the established threshold to open and free competition may have resulted that the U.S. government not receiving the most competitive price. Furthermore, not following the required procurement procedures resulted in WAW being in non-compliance with applicable Federal procurement regulations and its own SOP Manual.

Recommendation

We recommend that WAW updates its procurement policies and procedures to ensure compliance with the requirements set forth in 22 CFR 145.43 – Competition; 22 CFR 145.46 - Procurement Records. We also recommend that WAW refund \$717,933 in unsupported costs to DoS.

APPENDIX A – WAW MANAGEMENT RESPONSE

Finding Number 1 – improper currency exchange rates

Response: The system we were using at the time was a customized Microsoft ACCESS based financial management system that had its short-comings. One such shortcoming was the system's inability to report variation of exchange rates thus our financial management staff failed to detect the issue on time.

In March 2014, we started the process of transitioning from the customized financial system to the industry standard – QuickBooks; we contracted an international consulting Chartered Accountant firm to help our finance department in Kabul with the setup, data transfer and training.

Our management in Kabul and I have ensured that our finance team in Kabul as well as provinces continuously get the appropriate training; as of today, 3 of our staff members have attended a month-long intensive QuickBooks training. Our team in Kabul have also received the latest editions of books on Running QuickBooks in Non-profits, Not-for-Profit Accounting, Formation and Reporting, and etc.

Since the project closure, we have also recruited three additional QuickBooks trained staff members in various positions including two in our finance department and one senior management level who will help create a better oversight of the finance department.

We have also introduced currency conversion guidelines in our financial manual – as part of our internal control procedures – to put in place multiple checks and balances.

Finding Number 2 – New York Office Costs charged without supporting documentation

Response: Respectfully, I don't agree with this finding. At the time of the audit field work, we provided your visiting field auditor the supporting documentation that included the New York based WAW administrative personnel payroll and employment data; attached to this letter, I am sending you, again, the payroll documentation for [REDACTED] – WAW New York Administration – for your review.

Note that charges include [REDACTED] salary, employer's portion social security, Medicare, Federal and State unemployment, worker compensation and health insurance costs. Moreover, charges also included administrative support costs for the purposes of providing back office support to Grant SINLEC11GR017.

Finding Number 3 – Payment of fines in tax penalties

Response: The imposing tax penalties were pushed onto our staff despite the fact that the Executive Director, as a US Citizen, had been paying taxes in the United States. Our assumption was that the Afghan government would accord us the same exemption granted to Department of Defense contractors and sub-contractors as well as most USAID personnel in the country. We did not withhold, the Executive Director's salary, taxes for the purposes of depositing them into Afghan Government Treasury; because all applicable payroll income taxes, from the Executive Director's salary, were being deducted and paid to IRS in the United States.

Our staff provided the visiting ministry of finance auditors all the documentation to show that the Executive Director's taxes are paid in the United States but to no avail. Given the hybrid (accrual and cash) accounting practice at the time the previous three year's taxes were charged against this project.

About penalties on rent taxes, since January 2015, we have established a tax control ledger that ensures all applicable taxes are paid on time.

Finding Number 4 – Purchase of Materials from Restricted Sources; Cost incurred in Excess of Established rates and costs incurred outside period of performance

Response: Afghanistan heavily relies on imports from its neighbors' because there are no cost effective carpet industry or plastic industries in Afghanistan. This is mostly true in provinces other than Kabul where one could get supplies and goods from other countries not neighboring Afghanistan.

Often times, it becomes rather inevitable but to procure from the local market full of imported goods. Moreover, the urgency of providing shelter to vulnerable women and children in those provinces took priority over provision of training to our field staff on the international sanctions on certain countries, and the federal rules and regulations on procurement of goods and services. We certainly take this matter very seriously and will ensure to avoid this in the future.

Since December 2014, we have started to train our staff on Federal Rules & Regulations and briefed all our financial management and logistic personnel to ensure that they are aware of the restricted sources, and to check all vendors against the System for Award Management database.

The restricted sources lists will be shared with our field staff as they get updated by the U.S Government.

Finding Number 5 – Lack of competitive procurement bids for rental office building

Response: Please see attached to this letter, procurement documents/emails specific to renting premises for the S-INL-EC 11GR017, which is indication of our procurement practice of obtaining multiple quotations under all our projects. Attachments also include pictures.

Despite our very cautious approach not to disclose the locations of our shelters - because they are constantly under threat, we have been pushing to follow our own strict procurement rules and processes that include obtaining at least three quotations and ensuring that value is achieved for the tax payer's money that we are entrusted with.

Please note that it is not always feasible to find typical/comparable premises in most areas (provinces and even in Kabul city); further, the nature of our work requires us to be very discreet about our locations. We cannot openly advertise our search for houses. For the safety and security of the women we serve and who live in our shelters, we have to keep the location of our shelters secret. If the locations of our facilities are known to the public, we could get attacked and our clients and staff could be killed. For this very sensitive reason, we have to keep our locations confidential.

Just recently we had to move from one location to another in Kunduz, Jalalabad and we are actively studying our locations in Kabul city.

Additional measures we have taken are: in December 2014, we invited all our provincial finance and logistic personnel to Kabul to meet with our newly appointed controller who briefed them on specifics of documentation and the general United States Government procurement rules and regulations. Moreover, we have revised our financial manual to include various internal control measures for lease agreements and comparing premises; payments of funds and matrix of authority specific to renting premises in the provinces.

We are improving as a growing organization and we are committed to investing in our staff – the most valuable asset that we have – and in our systems and internal control measures.

APPENDIX B – AUDITOR FURTHER RESPONSE

Finding Number: WAW 1 – Improper Currency Exchange Rates

Nature of Finding: **Material Weakness in Internal Control - Ineligible Costs** WAW did not disagree with our finding. The unallowable costs identified related to currency conversion have not been justified and therefore we retain our finding as well as the questioned costs.

Finding Number: WAW 2 – New York Office Costs Charged Without Supporting Documentation

Nature of Finding: **Significant Deficiency in Internal Control - Unsupported Costs**

We received and reviewed additional supporting documentation provided by WAW along with their management response. The additional documentation provided related to the first item of questioned costs (NY HQ administrative costs) and includes employee position description, timesheets and payroll records.

Based upon our review of the additional supporting documentation, a total amount of \$64,221 was paid to two employees filling the administrative support position from May 2011 to June 2014. Of the total \$64,221 paid, we found that only \$54,358 were supported by payroll records and timesheets, and considered this amount to be allowable. We reduced the questioned amount by \$54,358 accordingly. The remaining \$9,864 was not supported by timesheet relating to the periods May 2011, August 2011, November 2011 and January through April 2012. We retain the remaining of the question costs under this finding because supporting documentation is not available to support the costs.

Finding Number: WAW 3 – Payment of Fines in Tax Penalties

Nature of Finding: **Non-Compliance - Ineligible Costs**

WAW did not disagree with our finding and payment for fines and penalties are unallowable costs under federal awards, therefore we retain our finding as well as the questioned costs.

Finding Number: WAW 4 – Purchase of Materials from Restricted Source; Cost Incurred in Excess of Established Rates and Costs Incurred Outside Period of Performance
Nature of Finding: Material Non-Compliance - Ineligible Costs

WAW did not disagree with our finding. The unallowable costs identified have not been justified and therefore we retain our finding as well as the questioned costs.

Finding Number: WAW 5 – Lack of Competitive Procurement Bids for Rental Office Building
Nature of Finding: Material Non-Compliance

WAW stated in its management response that additional procurement documents/email correspondences have been submitted as proof of their procurement practice for obtaining multiple quotations in support of their decision for procuring their rental office building. However, the additional supporting documentation received from WAW includes only samples of internal email communications in MS Word discussing rental house searches and photos of some houses they intended to rent. This is not sufficient to support open and free competition.

We did not receive any procurement documentation to show how the rental houses were selected competitively or a proper justification memorandum for each of the rental justifying a sole source at the time of procurement. Therefore, WAW did not document its procurement decisions in compliance with the requirements set forth under 22 CFR 145 or the procurement processes outlined in the WAW Standard Operating Procedures (SOP) manual. As a result we retain our finding as well as the questioned costs

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