

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 16-44 Financial Audit

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

**In accordance with legal requirements, SIGAR has redacted certain
information deemed proprietary or otherwise sensitive from this report.**



JULY
2016

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 13, 2009, the U.S. Agency for International Development (USAID) 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's initial goals were to conduct a preliminary assessment, election observations, and a post-election reporting. On January 24, 2012, the program was re-named the Afghanistan Electoral Reform and Civic Advocacy (AERCA) program, and the scope of the program was expanded to include strengthening Afghan organizations to advocate for electoral reform and supporting research on electoral reform. After 31 modifications, the total cost of the agreement was increased to \$51.3 million, and the period of performance was extended to June 30, 2017.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe), reviewed \$7,205,022 charged to the cooperative agreement from July 1, 2014, through December 31, 2015. 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. This is SIGAR's second audit of the AERCA cooperative agreement. SIGAR issued a previous audit which reviewed \$6,179,567 in expenditures charged to the AERCA cooperative agreement from January 1, 2013, through June 30, 2014.

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.

July 2016

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

SIGAR 16-44-FA

WHAT THE AUDIT FOUND

Crowe did not identify any material weaknesses or significant deficiencies in Democracy International's internal controls, or instances of noncompliance with the terms and conditions of the AERCA program cooperative agreement. As a result, Crowe did not identify any questioned costs, which would have included unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—or ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations.

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

Crowe obtained and reviewed prior audit reports related to Democracy International's implementation of the AERCA program and that could have a material impact on the Special Purpose Financial Statement. Crowe identified five prior audit findings and one additional matter from three prior audits, including SIGAR 15-84-FA, *USAID's Afghanistan Electoral Reform and Civic Advocacy Program: Audit of Costs Incurred by Democracy International, Inc.*, September 2, 2015. After reviewing and assessing information on the applicable findings, Crowe concluded that Democracy International took adequate corrective actions that addressed these findings.

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

Crowe did not report any findings related to the Afghanistan Electoral Reform and Civic Advocacy program cooperative agreement. Therefore, SIGAR is not making any recommendations to USAID.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

July 14, 2016

The Honorable Gayle E. Smith
Administrator, U.S. Agency for International Development

Mr. Herbert B. Smith
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 (AERCA) program.^{1, 2} Crowe's audit covered \$7,205,022 in expenditures charged to the cooperative agreement from July 1, 2014, through December 31, 2015. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Crowe did not report any findings related to the Afghanistan Electoral Reform and Civic Advocacy program cooperative agreement. Therefore, SIGAR is not making any recommendations to USAID.

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 cooperative 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 generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-083)

¹ USAID awarded cooperative agreement number 306-A-00-09-00522-00 to Democracy International to implement the AERCA program, which was intended to strengthen Afghan organizations to advocate for electoral reform and support research on electoral reform.

² SIGAR has previously reported on the AERCA program (see SIGAR, *USAID's Afghanistan Electoral Reform and Civic Advocacy Program: Audit of Costs Incurred by Democracy International, Inc.*, SIGAR 15-84-FA, September 2, 2015). SIGAR 15-84-FA was also performed by Crowe and reviewed \$6,179,567 in expenditures charged to the cooperative agreement from January 1, 2013, through June 30, 2014.



Democracy International, Inc.

Special Purpose Financial Statement

Afghanistan Electoral Reform and Civic Advocacy (AERCA) Program

For the Period July 1, 2014, through December 31, 2015

(With Independent Auditor's Report Thereon)

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Transmittal Letter

May 24, 2016

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 reflecting upon 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 draft 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.

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 organize an election observation mission for the presidential and provincial council elections in Afghanistan. The work was intended to promote good governance and improved security in Afghanistan through the strengthening of democratic electoral systems and processes. The program was to include three primary activities: a preliminary assessment, election observation, and post-election monitoring and release of findings. 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. Thirty-one modifications were subsequently issued that extended the period of performance to June 30, 2017, and increased the total estimated amount of the agreement to \$51,302,682. During Crowe’s audit period – July 1, 2014, through December 31, 2015 – DI incurred \$7,205,022 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. In addition to the program name change, modification number 14 expanded the scope of work to include activities intended to (1) strengthen Afghan organizations’ ability to debate and advocate for electoral reform and (2) foster innovative research on electoral reform. Modification number 31 further expanded the scope to incorporate activities to (1) strengthen Afghan civil society organizations’ ability to perform watchdog functions and to (2) support the Government of Afghanistan to implement reforms that will combat corruption.

Throughout the period of performance covered by the audit, 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 conducted two nationally representative surveys on *Elections and Civic Education Lessons Learned* and *Youth Political Participation* and the third wave of its series of surveys of the Afghan parliament;
- DI conducted regional research training sessions with 125 university lecturers at the National Center for Policy Research’s partner universities to expand the Center’s research network;
- DI provided research reporting training to more than 115 journalists to increase their knowledge on survey research and to increase their capacity to report statistical findings from opinion polls and survey research;
- DI continued providing technical and financial assistance to the Afghanistan Civil Society Elections Network, a network of more than 160 member organizations that advocates for electoral reform, which held 20 national and regional conferences and held numerous high-level meetings with the parliament, the Special Electoral Reform Commission, and the Offices of the President and the Chief Executive Officer; and
- In collaboration with local media partners, DI developed a web-based tool to improve government accountability, *From Words to Action* (govmeter.tolonews.com).

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 DI 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 or other financial data significant to the audit objectives.

Scope

The scope of the audit included the period July 1, 2014, through December 31, 2015, 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 Activities;
- Allowable Costs;
- Cash Management;
- Period of Availability of Federal Funds;
- 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.

Further, due to the cooperative agreement's having been modified in November 2015 and including an incremental funding increase, the Uniform Grants Guidance codified in Title 2, Part 200 of the Code of Federal Regulations became applicable to the award. Crowe conducted procedures to obtain an understanding of DI's controls over requirements applicable to the Uniform Grants Guidance and that may be material to the award as those requirements will apply for the duration of the period of performance.

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. In addition, Crowe conducted an independent search for reports that might contain findings or recommendations for follow-up. Three such reports were provided or otherwise obtained.

Two reports resulted from audits of the AERCA program – one issued by SIGAR and another issued by USAID. The third report pertained to an audit of DI's FY2012 Incurred Cost Submission. Five prior audit findings were identified for follow-up. In addition, one audit addressed a potential overbilling as a result of the reconciliation of costs invoiced to the Government to those recorded in DI's financial records.

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 did not identify any deficiencies in internal control that were classified as significant deficiencies or material weaknesses. However, two matters were noted that were communicated to DI via a letter written to management.



Crowe also reported on DI's compliance with the applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement. No instances of noncompliance were identified as a result of Crowe's procedures.

Lastly, Crowe requested copies of prior audits, reviews, and evaluations pertinent to DI's financial performance under the cooperative agreement. Per communications with DI and USAID as well as Crowe's review of publicly available information, there were three such audit reports issued during the years that the AERCA Program was active. Five audit findings and one additional matter reported by an external audit firm required follow-up by Crowe. None of the issued identified in prior audit findings were repeated in our audit. Therefore, Crowe concluded that the corrective action taken with respect to matters that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives was adequate. The specific results of the follow-up procedures and the status of the findings are noted within **SECTION 2**.

Summary of Management Comments

Democracy International submitted a letter to Crowe Horwath containing management's comments regarding the audit conclusions. Democracy International did not disagree with any of Crowe's conclusions.

References to Appendices

The auditor's reports are supplemented by one appendix: **Appendix A**, which contains management's comments.

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 July 1, 2014, through December 31, 2015, 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.

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 May 19, 2016, 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

May 19, 2016
Washington, D.C.

Democracy International, Inc.
Afghanistan Electoral Reform and Civic Advocacy Cooperative Agreement 306-A-00-09-00522-00
Special Purpose Financial Statement
For the Period July 1, 2014 to December 31, 2015

			<u>Questioned Costs</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>
<u>REVENUE</u>					
Revenue from Cooperative Agreement	\$ 51,302,682	\$ 7,205,022.00			4
Total Revenue from Cooperative Agreement	\$ 51,302,682	\$ 7,205,022.00			
<u>COSTS INCURRED</u>					
Labor					5
Cooperative Agreement	\$ 10,811,285	\$ 1,672,779			
<u>Fringe Benefits</u>					
Cooperative Agreement					
<u>Travel and Per-Diem</u>					
Cooperative Agreement	3,818,673	344,640			
<u>Allowances</u>					
Cooperative Agreement	3,223,333	454,795			
<u>Supplies and Equipment</u>					
Cooperative Agreement	313,179	43,705			
<u>Contractual-Subcontracts & Sub awards</u>					8
Cooperative Agreement	15,233,189	2,062,683			
<u>Other Direct</u>					
Cooperative Agreement	6,331,614	874,646			
<u>Indirect</u>					
Cooperative Agreement					
Total Costs Incurred	\$ 51,302,682	\$ 7,205,022			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 July 1, 2014 through December 31, 2015

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 July 1, 2014 through December 31, 2015. Because the Statement presents only a selected portion of the operations of 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 number 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 exchange rate for the period as provided by the local bank which is used to convert foreign currency into U.S. dollars.

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 AID306-A-00-09-00522 adopted as a component of the modification number 31 to the cooperative agreement dated November 1, 2015. The amounts presented reflect the budgeted amounts for the total award period – July 9, 2009, through June 30, 2017.

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 names of subrecipients and costs incurred for each subrecipient during the period is presented in the table below.

Vendor Number	Subrecipient Name	Subgrant Number	Costs Incurred
FCC1	Foundation for Culture and Civil Society	4005-001-FCCS-01	\$9,880
LAP1	Lapis Communications	4005-001-LAP-02	\$125,297
TEF1	Transparent Election Foundation of Afghanistan	4005-001-TEFA-03	\$77,103
AWS1	Afghanistan Women Service and Education Organization	4005-001-AWSE-02	\$2,512
EWA1	Elections Watch Organization of Afghanistan	4005-001-EWA-02	\$145,478
EWA1	Elections Watch Organizations of Afghanistan	4005-001-EWA-01	\$79,195
PMR1	Suli Paigham Radio	4005-001-PMR-01	\$4,776
Total Subrecipient Costs Incurred:			\$444,241

Note 9. Program Status

The Cooperative Agreement AID306-A-00-09-00522 for the Afghanistan Electoral Reform and Civic Advocacy (AERCA) Program for the period remains active. The period of performance for the cooperative agreement is scheduled to conclude on June 30, 2017, as noted in modification number 31 dated November 1, 2015. 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.

Note 10. Program Financial Status (Unaudited)

The SPFS addresses the period July 1, 2014, through December 31, 2015, which represents only a portion of the total AERCA period of performance. Cumulatively, as of December 31, 2015, DI had incurred \$37,334,012 in allowable, eligible costs and earned the corresponding amount of revenue. Due to DI's functioning on a reimbursement basis, \$36,858,212 had been drawn down from the Letter of Credit account as of December 31, 2015. The difference between the costs incurred and the amount drawn down from the Letter of Credit is expected to be drawn at a later date.

Note 11. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the July 1, 2014, through December 31, 2015, end of the period covered by the Statement. Management has performed their analysis through May 19, 2016.

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 July 1, 2014, through December 31, 2015, 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 May 19, 2016.

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, we considered DI's internal controls to determine the 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 DI's internal control. Accordingly, we do not express an opinion on the effectiveness of DI's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

We noted certain matters that we reported to DI's management in a separate letter dated May 19, 2016.

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.

A handwritten signature in black ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

May 19, 2016
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 July 1, 2014, through December 31, 2015, 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 May 19, 2016.

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

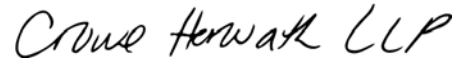
As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

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 black ink that reads "Crowe Horwath LLP". The script is cursive and fluid.

Crowe Horwath LLP

May 19, 2016
Washington, D.C.

SECTION 1: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

No reportable findings were identified during the course of the audit.

SECTION 2: Summary Schedule of Prior Audit and Review Findings

Crowe reviewed three audit reports that included Democracy International's AERCA Program within their scope. Upon review of the reports, five findings and one additional reported issue were noted that could have a direct and material effect on the Special Purpose Financial Statement or other financial information significant to the audit objectives. The findings were identified within the following reports:

- *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;
- *Financial Audit of the Special Purpose Financial Statement for the Afghanistan Electoral Reform and Civic Advocacy (AERCA) Program for the Period January 1, 2013, through June 30, 2014*, as issued by the Office of the Special Inspector General for Afghanistan Reconstruction; and
- *Performance Audit of Democracy International, Inc., Fiscal Year 2012 Incurred Cost Audit*.

Due to USAID's not having sustained the findings from the performance audit as evidenced by the agency's acceptance of Democracy International's initially proposed indirect cost rates versus those calculated using the audit results, the findings have not been reflected herein. Those prior audit findings specific to the audits of the AERCA Program have been reflected, below, along with the status of the prior audit findings.

Finding 2013-02: Lack of Proper Provision Requirements

Reports: *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.

This finding was repeated in the following report as Finding 2015-02: *Financial Audit of the Special Purpose Financial Statement for the Afghanistan Electoral Reform and Civic Advocacy (AERCA) Program for the Period January 1, 2013, through June 30, 2014*, as issued by the Office of the Special Inspector General for Afghanistan Reconstruction.

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; and
- Reporting of Foreign Taxes (March 2006).

Status: During our testing procedures, we did not identify any procurement contracts or subaward agreements that were missing the required contract provisions and/or USAID Standard Provisions. This finding is not repeated.

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

Report: *Financial Audit of the Special Purpose Financial Statement for the Afghanistan Electoral Reform and Civic Advocacy (AERCA) Program for the Period January 1, 2013, through June 30, 2014*, as issued by the Office of the Special Inspector General for Afghanistan Reconstruction

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

Status: DI implemented a process that requires subrecipients to certify as to their fulfillment of the USAID audit requirement. We requested and obtained evidence of the process's having been implemented. This finding is not repeated.

Appendix A: Views of Responsible Officials



June 21, 2016

Crowe Horwath LLP
1455 Pennsylvania Avenue, NW
Suite 700
Washington, DC 20004-1008

Dear Sir/Madam:

Thank you for the report of your financial audit of Democracy International's cooperative agreement with the U.S. Agency for International Development funding the Afghanistan Electoral Reform and Civic Advocacy ("AERCA") program. We appreciate that you did not identify any significant deficiencies or material weaknesses in internal controls or any instances of noncompliance with applicable laws, rules, regulations, or terms of the cooperative agreement, and we also greatly appreciate your positive opinion on the fairness of the Special Purpose Financial Statement.

We would like to thank Crowe Horwath for your professionalism and your careful, thoughtful review of the program. We would also like to thank the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") for its efforts; we fully support SIGAR's critically important mission of promoting efficiency and effectiveness of development programs and detecting and preventing waste, fraud, and abuse. Democracy International is committed to excellence and looks forward to continuing to work in support of the important efforts of USAID.

Sincerely,

A handwritten signature in blue ink, appearing to read "Eric C. Bjornlund", with a large, stylized flourish extending to the right.

Eric C. Bjornlund
President

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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