

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 18-43 Financial Audit**

## Department of Defense Task Force for Business and Stability Operations' Support for the Kabul Business Incubator: Audit of Costs Incurred by the Friends of the American University of Afghanistan

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



APRIL  
2018

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On July 8, 2013, the Department of Defense's Washington Headquarters Services, on behalf of the Task Force for Business Stability Operations (TFBSO), awarded a 6-month, \$1,348,255 grant to the Friends of the American University of Afghanistan (FAUAF). The grant was intended to fund a pilot program to assess the viability of a sustainable business incubator in Kabul, Afghanistan. After four modifications, the period of performance was extended through June 30, 2014. The grant's ceiling did not change.

SIGAR's financial audit, performed by Williams Adley and Company-DC LLP (Williams Adley), reviewed \$1,041,953 in expenditures charged to the grant from July 8, 2013, to January 7, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in FAUAF'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 FAUAF has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of FAUAF's Special Purpose Financial Statement (SPFS). See Williams Adley'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 Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

April 2018

### Department of Defense Task Force for Business and Stability Operations' Support for the Kabul Business Incubator: Audit of Costs Incurred by the Friends of the American University of Afghanistan

SIGAR 18-43-FA

### WHAT THE AUDIT FOUND

Williams Adley identified one material weakness, one significant deficiency, and three other deficiencies in FAUAF's internal controls, and four instances of noncompliance with the terms of the grant and applicable laws and regulations. For example, Williams Adley found that FAUAF could not support how it allocated certain labor costs charged to the grant. In addition, FAUAF charged costs from outside the grant's period of performance. In one instance, FAUAF charged for business-class travel without authorization.

As a result of these internal control deficiencies and instances of noncompliance, Williams Adley identified \$89,892 in total questioned costs, consisting of \$88,417 in unsupported costs—costs not supported with adequate documentation or that did not have required proper approvals—and \$1,475 in ineligible costs—costs prohibited by the grant, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel	\$0	\$54,752	\$54,752
Fringe	\$0	\$5,627	\$5,627
Travel	\$0	\$4,457	\$4,457
Equipment	\$0	\$9,862	\$9,862
Supplies	\$250	\$181	\$431
Other	\$1,000	\$50	\$1,050
Indirect	\$225	\$13,488	\$13,713
<b>Totals</b>	<b>\$1,475</b>	<b>\$88,417</b>	<b>\$89,892</b>

Williams Adley did not identify any findings or recommendations from prior engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Williams Adley issued a qualified opinion on FAUAF's SPFS, noting that the amount of questioned costs and the material weakness identified diminish FAUAF's ability to ensure that labor costs charged are accurate.

### WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the responsible Washington Headquarters Services Grant Officer:

1. **Determine the allowability of and recover, as appropriate, \$89,892 in questioned costs identified in the report.**
2. **Advise FAUAF to address the report's five internal control findings.**
3. **Advise FAUAF to address the report's four noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

April 19, 2018

The Honorable James N. Mattis  
Secretary of Defense

General Joseph L. Votel  
Commander, U.S. Central Command

General John W. Nicholson, Jr.  
Commander, U.S. Forces-Afghanistan and  
Commander, Resolute Support

We contracted with Williams Adley-DC LLC (Williams Adley) to audit the costs incurred by the Friends of the American University of Afghanistan (FAUAF) under a Department of Defense (DOD) Task Force for Business and Stability Operations (TFBSO) grant to fund a pilot program to assess the viability of a sustainable business incubator in Kabul, Afghanistan.<sup>1</sup> Williams Adley's audit covered \$1,041,953 in expenditures charged to the grant from July 8, 2013, to January 7, 2014. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of the audit, SIGAR recommends that the responsible Washington Headquarters Services Grant Officer:

1. **Determine the allowability of and recover, as appropriate, \$89,892 in questioned costs identified in the report.**
2. **Advise FAUAF to address the report's five internal control findings.**
3. **Advise FAUAF to address the report's four noncompliance findings.**

The results of Williams Adley's audit are in the attached report. We reviewed the 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 FAUAF's Special Purpose Financial Statement. We also express no opinion on the effectiveness of FAUAF's internal controls or compliance with the grant, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-109)

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<sup>1</sup> DOD's Washington Headquarters Services awarded grant number HQ0034-13-1-0002 to FAUAF on TFBSO's behalf.

**OFFICE OF THE  
SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION**

**Financial Audit of Costs Incurred**

by

**Friends of American University of Afghanistan**

Under

Grant Award HQ0034-13-1-0002

For the Period

**July 8, 2013 – January 7, 2014**

Submitted by



April 13, 2018

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## Transmittal Letter

April 13, 2018

Board of Directors  
Friends of American University of Afghanistan (FAUAF)  
1901 Pennsylvania Avenue, Suite 207  
Washington, DC

Special Inspector General for Afghanistan Reconstruction (SIGAR)  
Arlington, VA

Williams, Adley and Company-DC, LLP (referred to as "Williams Adley" or "we") hereby provides to you our draft report, which reflects results from the procedures we completed during our audit of the FAUAF grant number HQ0034-13-1-0002, Task Order ID11160028 with the Department of Defense, made on behalf of the Task Force for Business and Stability Operations in Afghanistan.

On February 9, 2018, we provided SIGAR a draft report reflecting our audit procedures and results. FAUAF received a copy of the report on March 27, 2018 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and FAUAF. FAUAF's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of this FAUAF grant.

Sincerely,

A handwritten signature in cursive script, reading 'Jocelyn Hill', enclosed in a rectangular box.

Jocelyn A. Hill, CPA  
Partner

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**WILLIAMS, ADLEY & COMPANY-DC, LLP**

*Certified Public Accountants / Management Consultants*

1030 15<sup>th</sup> Street, N.W., Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161

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## Summary

### Background

Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 ([P.L. 110-181](#)), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. Thus, the United States Department of Defense (DoD) funded reconstruction activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

Effective July 8, 2013, the DoD, through the Task Force for Business and Stability Operations (TFBSO<sup>1</sup>), granted the Friends of American University of Afghanistan (FAUAF) grant award number HQ0034-13-1-0002 in the amount of \$1.35 million, to complete a sustainability plan to evaluate and determine steps for ensuring the sustainability of the Kabul Business Incubator (KBI). The TFBSO was DoD's principal vehicle for stimulating private sector growth and investment in Afghanistan's economy. The TFBSO's mandate was in the "development of economic opportunities, including private investment, industrial development, banking and financial system development, agriculture diversification and revitalization, and energy development" in Afghanistan.

The National Business Incubation Association (NBIA) defines business incubators as a catalyst tool for either regional or national economic development. NBIA categorizes their members' incubators by the following five incubator types: academic institutions; non-profit development corporations; for-profit property development ventures; venture capital firms, and a combination of the above. KBI is a pilot program to assess the viability of a sustainable business incubator in Kabul, Afghanistan. Additionally, FAUAF was tasked with a risk assessment of the concept relating to best practices of the Herat experience by the TFBSO, and to perform market research in at least five provinces in Afghanistan to determine feasibility of sustainable models throughout the country with a focus on the accelerator in Kabul. As stated in the grant, FAUAF was also responsible for developing a plan for full integration of American University of Afghanistan (AUAF) faculty and staff, to include the International Center for Afghan Women's Economic Development, into the project during the next KBI phase.

Founded in 2008, FAUAF is a registered 501(c)(3) nonprofit entity located in Washington, DC. FAUAF provides financial support and increased awareness and understanding of academic institutions, such as the American University of Afghanistan (AUAF) located in

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<sup>1</sup> The TFBSO ceased operations on November 21, 2014.

Kabul. According to FAUAF, it enhances higher education opportunities in Afghanistan through grants that support infrastructure, financial aid, and programs to meet the needs of the Afghan people. FAUAF serves as a development and communications center for United States donors. FAUAF's mission is dedicated to supporting higher education in Afghanistan through AUAF, Afghanistan's only independent, private, not for profit, non-sectarian, co-educational institution of higher learning.

Table 1: FAUAF Grant and Modifications

Grant Number HQ0034-13-1-0002	Effective date	Amount Funded (USD Obligated)	Cumulative Award Value	Purpose
Base Year	7/8/2013	\$1,397,155	\$1,397,155	Assess Viability Of A Sustainable Kabul Business Incubator
Modification 1	08/23/2013	\$0	\$0	Correct the information in Wide Area Work Flow (WAWF) clause in the grant award
Modification 2	09/10/2013	(\$48,900)	\$1,348,255	Incorporate a revised payment draw down schedule and to change the payment office
Modification 3	09/19/2013	\$0	\$0	Correct the payment and administrative office information
Modification 4*	10/2/2017	\$0	\$0	Extended Period of Performance to June 30, 2014
<b>TOTAL</b>		<b>\$1,348,255</b>	<b>\$1,348,255</b>	

\*This modification was executed subsequent to the period audited and is not part of the Statement.

SIGAR contracted Williams, Adley & Company-DC, LLP (Williams Adley) to audit costs incurred under Task Order ID11160028. The period of performance for the FAUAF contract for audit purposes was July 8, 2013 to January 7, 2014.

## Objectives

The objectives of the audit are as follows:

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 generally accepted accounting principles or other



comprehensive basis of accounting.

2. Internal Controls – Evaluate and obtain a sufficient understanding of FAUAF’s internal controls related to the grant; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
3. Compliance – Perform tests to determine whether FAUAF complied, in all material respects, with the grant requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the grant and applicable laws and regulations, including potential fraud or abuse that may have occurred.
4. Corrective Action on Prior Findings and Recommendations – Determine and report on whether FAUAF 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

In general, our scope of work includes activities and all expenditures incurred during the period July 8, 2013 through January 7, 2014 under the TFBSO grant award HQ0034-13-1-0002.

1. We performed a financial audit of incurred costs by FAUAF under the award listed above that supported the TFBSO effort.
2. We conducted sufficient testing to express an opinion on the engagement objectives. The major areas of review included the following:
  - i. Administrative Procedures and Fraud Risk Assessment
  - ii. Budget Management
  - iii. Cash Management
  - iv. Disbursement and Financial reporting
  - v. Procurement and Inventory Management
3. We performed compliance testing, including, but not limited to, activities allowed or disallowed; allowable costs under cost principles; cost determination for indirect costs; cash management; costs incurred eligibility; period of availability of Federal funds; procurement, suspension and debarment; program income; and reporting.
4. We reviewed transactions for the period from July 8, 2013 through January 7, 2014, and subsequent events and information that may have a significant impact on the findings and questioned costs for the audit period.

5. We expressed an opinion on the Special Purpose Financial Statement and related Notes for the audit period.

Our audit was conducted to form an opinion on the Special Purpose Financial Statement in accordance with the Special Purpose Financial Statement presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents, Management Comments, and Summary are presented for informational and organizational content purposes and are not required parts of the Special Purpose Financial Statement. Such information has not been subject to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we do not express an opinion or provide any assurance on it.
- The scope of our audit does not include procedures to verify the efficacy of the TFBSO funded program, and accordingly, we do not express an opinion or provide any assurance on it.

## Methodology

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS), as published in the Government Accountability Office's Government Auditing Standards, 2011 revision ("Yellow Book"). Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the Special Purpose Financial Statement of the costs incurred under the award are free of material misstatement. An audit includes:

- Obtaining an understanding of FAUAF's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the Special Purpose Financial Statement.

To meet the audit objectives, we prepared an audit plan for the engagement. We reviewed applicable background materials, including contracts, auditee financial progress reports, DoD regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as applicable, to gain a thorough understanding of the control environment, the requirements of the contract, and any past findings and recommendations that may impact the audit. If prior audits indicated a need for corrective action to be taken by FAUAF, we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations. We requested and received supporting documentation for compliance evaluation of incurred costs and gained an understanding of the internal control related thereto. We assessed the control risk for sampling and testing purposes.

We used both statistical and judgmental sampling techniques to select direct labor, travel, and other direct cost samples to test for allowable incurred costs based on our risk assessment, and reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards, as applicable.

We reviewed and re-computed the indirect costs by multiplying the direct costs incurred during the period by the approved indirect cost percentage, and compared our calculations with the reported indirect costs. We noted adjustments to the reported indirect costs based on the results of our calculations.

The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

## Summary of Results

Williams Adley issued a qualified opinion on FAUAF's Special Purpose Financial Statement because of the materiality of the questioned costs we identified. We also reported on FAUAF's internal control and compliance with contract terms, laws and regulations, and the status of corrective action FAUAF has taken to address findings and recommendations from previous engagements that could have a material effect on the Special Purpose Financial Statement or other data significant to the audit objectives, as applicable. We identified one material weakness in internal control and noncompliance related to unsupported labor costs; one significant deficiency in internal control for a budget line item variance that exceeded the authorized threshold of 10% of the overall budget; and three immaterial non-compliance and internal control deficiencies for unsupported non-labor costs, costs incurred outside the allowable performance period and miscalculated indirect costs. We noted one noncompliance issue for unjustified business class travel costs. These reportable conditions, as required under GAGAS or our contract with SIGAR, are discussed in the following paragraph.

There are two categories of questioned costs—ineligible and unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract or applicable laws and regulations, are not award related, or are an unreasonable expenditure of funds. Unsupported costs are those costs for which FAUAF was unable to provide sufficient supporting documentation, including evidence of proper approvals, for Williams Adley to determine the accuracy and allowability of the costs. We reported the following questioned costs for ineligible or unsupported costs and other internal control issues wherein no questioned costs were noted, for which management action is required.

Finding	Description	Ineligible Costs	Unsupported Costs	Cumulative Questioned Costs
2017-01	Budget Line Item Variance	\$0	\$0	\$0
2017-02	Unsupported Labor Costs	\$0	\$71,248	\$71,248
2017-03	Unsupported Non-Labor Costs	\$0	\$11,910	\$83,158
2017-04	Incurred Costs Not Within Performance Period	\$1,475	\$0	\$84,633
2017-05	Unjustified Business Class Travel Costs	\$0	\$5,259	\$89,892
2017-06	Miscalculation of Indirect Costs	\$0	\$0	\$89,892
Totals		\$1,475	\$88,417	\$89,892

## Status of Prior Audit Findings Reports

Williams Adley reviewed prior audits of FAUAF. Specifically, we reviewed the OMB Circular A-133 single audits of FAUAF's 2012 and 2013 financial statements. No findings, questioned costs, or material weaknesses or matters involving internal control over financial reporting were noted. Consequently, we noted no prior audit findings that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives.

## Summary of Management Comments on Audit Report

FAUAF management agreed with findings 2017-03, 2017-04 and 2017-06, and the related questioned costs. Management disagreed with the classification of finding 2017-01 as a significant internal control weakness. Management contends that its budgetary and other controls worked properly to: 1) incur only those costs necessary and reasonable to implement project objectives; 2) identify when costs for a budgeted line item exceeded what was allowed for the grant; and 3) obtain approval from DoD prior to incurring excess costs. FAUAF acknowledged that it should have obtained TFBSO's approval in writing, however, for the reasons stated, requests that the nature of this finding be changed to "other deficiency" instead of a significant deficiency in internal control. For finding 2017-02, management asserts that the auditor did not include adjustments for vacation and holidays in the calculation of questioned labor amounts and fringe benefits. Based on

management's re-calculations, FAUAF believes the questioned direct costs under this finding should be reduced by \$7,603, fringe benefit costs should be reduced by \$2,760 and indirect cost should be reduced by \$1,865. FAUAF maintains that the business class travel cost questioned pursuant to finding 2017-05 should be allowed based on management's position that the cost falls within the limited exceptions under the applicable regulations.

The full text of management's response is in Attachment B of this report. Our response to management's comments is provided in Attachment C.

## Attachments

The auditor's reports are supplemented by three attachments:

Attachment A - Schedule of Findings and Questioned Costs

Attachment B – Management's Response to Audit Findings

Attachment C – Auditor's Response to Management Comments



## **Independent Auditor's Report on the Special Purpose Financial Statement**

Board of Directors

Friends of American University of Afghanistan (FAUAF)

1901 Pennsylvania Avenue, Suite 207

Washington, DC

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

We have audited the special purpose financial statement of Friends of American University of Afghanistan (hereinafter "FAUAF") under grant award number HQ0034-13-1-0002 for the period July 8, 2013 through January 7, 2014. The special purpose financial statement ("Statement") is the responsibility of FAUAF's management.

### ***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 methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Statement) that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit of the Statement in accordance with generally accepted government auditing standards (GAGAS) 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.

***Basis for Qualified Opinion***

We noted a material weakness in the internal control for labor costs charged to the contract, which contributed to \$89,892 in questioned costs and diminishes FAUAF's ability to ensure labor costs charged to the award are accurate. The total questioned cost amount is considered material to the Statement.

***Qualified Opinion***

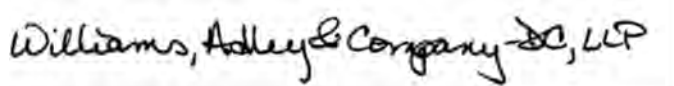
In our opinion, except for the effects of the \$89,892 in questioned costs noted in the Basis for Qualified Opinion paragraph, the Statement referred to above presents fairly, in all material respects, the respective revenues earned, costs incurred, items procured by the U.S. Government and balance for the period July 8, 2013 through January 7, 2014 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2 of the Statement.

***Other Reporting Required by GAGAS***

In accordance with GAGAS, we have also issued our reports, dated February 2, 2018, on our consideration of FAUAF's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with GAGAS and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

***Restriction on Use***

This report is intended for the information of FAUAF, Department of Defense and the Special Inspector General for Afghanistan Reconstruction (SIGAR), 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.



Washington, D.C.  
February 2, 2018

**Friends of American University of Afghanistan**  
**Special Purpose Financial Statement for Costs Incurred**  
Under Grant Number HQ0034-13-1-0002  
For the Period of July 8, 2013 through January 7, 2014

REVENUE	Budget	Actual <sup>2</sup>	Ineligible	Unsupported	Notes <sup>3</sup>
Grant #HQ0034-13-1-0002	\$1,348,255	\$1,264,880			
<b>TOTAL REVENUE</b>	<b>\$1,348,255</b>	<b>\$1,264,880</b>			
<b>COSTS INCURRED</b>					2
Personnel	\$166,500	\$150,047		\$ 54,752	A
Fringe	60,600	31,768		5,627	A
Travel	65,000	22,328		4,457	D
Equipment	97,200	35,927		9,862	B
Supplies	64,500	8,451	\$250	181	B,C
Contractual	395,670	96,564			
Other	285,660	561,002	1,000	50	B,C
Indirect	213,125	135,866 <sup>4</sup>	225	13,488	A,B,C,D
<b>Total Costs Incurred</b>	<b>\$1,348,255</b>	<b>\$1,041,953</b>	<b>\$1,475</b>	<b>\$88,417</b>	
<b>Outstanding Balance</b>		<b>\$222,927</b>			

<sup>2</sup> Per the final general ledger prior to indirect cost adjustment.

<sup>3</sup> The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

<sup>4</sup> This amount does not include \$16,138 in indirect costs that were under-reported in the general ledger (see Note 2.10).



Friends of American University of Afghanistan  
**Notes to the Special Purpose Financial Statement<sup>5</sup>**  
For the Period of July 8, 2013 through January 7, 2014

Friends of the American University of Afghanistan  
NOTES TO FINANCIAL STATEMENTS  
7-Jan-14

**NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS**

Friends of the American University of Afghanistan (FAUAF) (Organization) was incorporated in 2008 in the District of Columbia as a 501 (C) (3). The Organization's tax-exempt mission is:

The Organization is dedicated to support higher education in Afghanistan through entities such as the American University of Afghanistan (AUAF), Afghanistan's only independent, private, not for profit, non-sectarian, coeducational institute of higher learning. FAUAF serves as a development and communications center for the United States donors.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**2.1. Basis of Accounting**

Method of Accounting - Friends of the American University of Afghanistan (Organization) follows the accrual basis of accounting and principles of nonprofit accounting to comply with restrictions placed on contributions by donors. All assets, liabilities, and activities are classified for accounting and reporting purposes in accordance with Statement of Financial Accounting Standards (FAS) No. 117 of the Financial Accounting Standards Board, Financial Statements of Not-For-Profit Organizations. All financial transactions have been recorded according to the three classes of net assets described in FAS No. 117 - unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has no permanently restricted net assets. Cash and cash equivalents - Amounts held in checking, savings and money market accounts are classified as cash and cash equivalents in the financial statements. Furniture and Equipment - Furniture and equipment is capitalized and depreciated on a straight-line method over the estimated useful life of the asset.

Revenue Recognition - Grant funds are deemed to be earned and recognized as revenue when the Organization has completed milestones in compliance with the specific grant terms.

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<sup>5</sup> The Notes to the Special Purpose Financial Statement are the responsibility of FAUAF's management.

Donations: The Organization receives individual, foundation and corporate donations. As indicated by the donor these funds are designated as unrestricted or restricted. To the extent no indication is made these were determined to be unrestricted.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

## 2.2. Income Taxes

Friends of the American University of Afghanistan is exempt from taxes under section 501(c) (3) of the Internal Revenue Code. There is no provision for income taxes in these financial statements. The Organization annually files with the Internal Revenue Service Form 990 Return of Organization Exempt Income Tax. This form is open to public inspection. Management represents that there are no activities that would generate unrelated business income tax. ASC Topic 740, Income Taxes, addresses the accounting for uncertainty in income taxes recognized in an organization's financial statements and prescribes a threshold and measurement attribute for financial statement recognition regarding tax positions taken or expected to be taken on a tax return, including the entity's status as a tax-exempt entity. The Organization has determined there are no significant uncertain tax positions. While the Organization's tax and other regulatory forms may be examined by tax authorities, such as the IRS, it is no longer subject to federal income tax examinations for any years earlier than its fiscal year ended June 30, 2011.

## 2.3. Related Party Activity

The Organization's President/Chairman is also a board member of the American University of Afghanistan. Legal counsel that is retained by the organization has a firm member that is related through marriage to the President/Chairman.

## 2.4. Contingencies

According to management and the Organization's legal counsel there is no pending litigation or contingencies that would adversely affect the Organization and require adjustment to, or disclosure in the financial statements. The organization has received no communication for the Department of Defense that they are inquiring into program costs charged to the project. Security concerns in the region exist that may have an impact on the Organization's ability to complete the terms and conditions of the contract.

Management is attentive to those concerns and feel they have been properly addressed and feel they have the ability to fulfill the terms of the agreement.

## 2.5. Concentration of Credit Risks I Cash Balances

The Organization has amounts in excess of the FDIC limit of \$250,000; these were result in timing differences from drawing down federal funds and paying contractors.

Organization funds are typically disbursed for program expenses in close proximity to receipt of funds under the Department of Defense Grant.

#### 2.6. Equipment Purchases

Expenditures made under the Grant for building and equipment costs are not capitalized as the structure has been donated to the American University of Afghanistan. The organization's operating fixed assets (furniture and computers) has been capitalized and depreciated over an estimated useful life.

#### 2.7. Federal Grant Revenues

Kabul Business Accelerator - In July 2013, the organization received a grant award valued at \$1,348,255 from the Department of Defense to support Phase 1 of the program called the "Kabul Business Accelerator." Phase I was completed in June 2014. The organization recognizes revenue from the grant as those funds are drawn down based on contract milestones.

#### 2.8. Grants Receivable

Grant funds received prior to being expended are recorded as a liability and funds expended prior to reimbursement or draw-downs are recorded as a receivable. Grants receivable represents amounts due the Organization for costs and expenses incurred that are expected to be reimbursed by the Federal Grant. As of January 7, 2014, there were no costs incurred that would be due from the Federal grant.

#### 2.9. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

#### 2.10. Reconciliation of Award Costs to Financial Statements

Total Expenses Charged to Award as of January 7, 2014:

##### Federal Awards:

Kabul Business Incubator- Phase I

Department of Defense HQ0034-KB I-13-BAA-0001 \$1,041,953; This amount excludes \$16,138 in additional indirect costs that were identified after close-out of the general ledger.

#### 2.11 Outstanding Balance

The outstanding balance represents the amount of funding received that exceeds the expenditures incurred as of January 7, 2014.

FAUAF complied with the drawdown amounts stipulated in section B.7 of the grant award, as modified: The following table presents the schedule of drawdowns per the grant award and actual drawdowns by amount and date.

Payment	Amount	Payment Request Due Date	Amount Drawn Down	Date Drawn Down
1	\$271,886.00	August 15, 2013	\$271,886.00	October 8, 2013
2	293,886.00	September 15, 2013	293,886.00	October 28, 2013
3	249,836.00	October 15, 2013	249,836.00	October 21, 2013
4	224,636.00	November 15, 2013	224,636.00	November 25, 2013
5	224,636.00	December 15, 2013	224,636.00	December 17, 2013
6	83,375.00	January 8, 2013*	83,375.00	May 5, 2014
<b>TOTAL</b>	<b>\$1,348,255.00</b>		<b>\$1,348,255.00</b>	

\*The year is incorrectly listed in the grant agreement as 2013. It should be 2014.

The payment schedule presented above was made part of the grant agreement to streamline the cash drawdown process over a relatively short performance period. Because FAUAF generally adhered to the payment request schedule, as opposed obtaining advances based on its immediate cash needs, there was an outstanding balance of \$222,927 in grant funds as of January 7, 2014.

#### NOTE 3 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 2, 2018, which is the date of the last Contracting Officer memo confirming approval of material changes to the KBI Phase I budget by line item. Further, errors were made in calculating indirect costs through January 7, 2014, which were identified and corrected subsequent to the performance period. The results of the subsequent events have been incorporated into and disclosed in the accompanying financial statements.

**Friends of American University of Afghanistan**  
**Notes to the Questioned Amounts Presented on the Special Purpose Financial Statement<sup>6</sup>**

**Note A: Questioned Costs – Unsupported Labor Costs**

Finding 2017-02 questions \$71,248 as FAUF was unable to provide adequate support documentation for labor costs (\$54,752), and related fringe benefits (\$5,627) and allocated indirect costs (\$10,869) for employee payroll charged to the grant during the audited period of performance.

**Note B: Questioned Costs – Unsupported Non-Labor Costs**

Finding 2017-03 questions \$11,910 in equipment, legal fees and phone charges, which resulted from non-labor incurred cost testing of transactions that were unsupported (\$10,093) and associated indirect cost allocated to the direct costs (\$1,817).

**Note C: Questioned Costs – Incurred Costs Not Within Performance Period**

Finding 2017-04 questions \$1,475 in costs charged to the project. During testing of incurred costs and review of supporting documentation, we noted consultant, accounting entries, telephone charges, sub-recipient costs incurred for a period outside the July 7, 2013 to January 7, 2014 scope in the amount of \$1,250 and associated indirect costs of \$225.

**Note D: Questioned Costs – Non-approved Business Class Travel**

Finding 2017-05 describes \$5,259 in questioned cost for the difference between business class airfare and economy class airfare (\$4,457), and associated indirect costs of \$802, for one trip in which adequate justification for the business class travel was not provided.

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<sup>6</sup> Alphabetic notes to the questioned amounts presented on the Special Purpose Financial Statement were developed by and are the responsibility of the auditor



### **Independent Auditor's Report on Internal Control**

Board of Directors  
Friends of American University of Afghanistan (FAUAF)  
1901 Pennsylvania Avenue, Suite 207  
Washington, DC

We have audited the special purpose financial statement ("Statement") of FAUAF for the period July 8, 2013 through January 7, 2014, and have issued our report on it, dated February 2, 2018.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) 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.

#### ***Internal Control over Financial Reporting***

The management of FAUAF is responsible for establishing and maintaining 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 agreements; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of accounting described in Note 2.1 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.

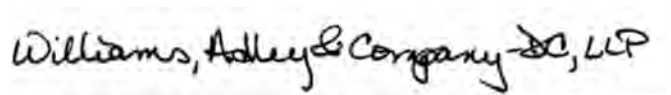
In planning and performing our audit of FAUAF's Statement for the period July 8, 2013 through January 7, 2014, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our

opinion on the Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants (AICPA). 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 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 noted one matter involving internal control and its operation that we consider to be a material weakness as defined above and described as Finding 2017-02 in the Schedule of Findings and Questioned Costs. We observed one finding on matters involving internal control and its operation that we consider to be a significant deficiency in internal control, which is described in Finding 2017-01 in the Schedule of Findings and Questioned Costs. We also identified three instances, described in the accompanying Summary of Findings and Questioned Costs as findings 2017-03, 2017-04 and 2017-06, which we consider to be deficiencies in internal control.

### ***Restriction on Use***

This report is intended for the information of FAUAF, the Department of Defense and the Special Inspector General for Afghanistan Reconstruction (SIGAR), 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.



Washington, D.C.  
February 2, 2018





### Independent Auditor's Report on Compliance

Board of Directors  
Friends of American University of Afghanistan (FAUAF)  
1901 Pennsylvania Avenue, Suite 207  
Washington, DC

We have audited the special purpose financial statement ("Statement") of FAUAF for the period July 8, 2013 through January 7, 2014, and have issued our report on it, dated February 2, 2018.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS) 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

#### ***Compliance and Other Matters***

Compliance with agreement terms and laws and regulations applicable to FAUAF is the responsibility of FAUAF's management. As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of FAUAF'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.

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, except as noted in Finding 2017-02.

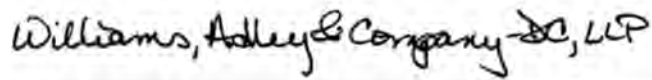
We identified one instance of noncompliance material to the Statement, per finding 2017-02, that is required to be reported here under GAGAS. We identified four instances not material to the Statement, which are required to be reported in accordance with the contract with the Special Inspector General for Afghanistan Reconstruction (SIGAR). These instances of noncompliance are described in the accompanying Schedule of Findings and Questioned Costs as findings 2017-03, 2017-04, 2017-05 and 2017-06.

FAUAF's response to the findings identified in our report are included as Attachment B to this report. We did not audit these responses and, accordingly, we express no opinion on them.



***Restriction on Use***

This report is intended for the information of FAUAF, the Department of Defense and the Special Inspector General for Afghanistan Reconstruction (SIGAR), 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.



Washington, D.C.  
February 2, 2018

**Attachment A – Schedule of Findings and Questioned Costs****Finding 2017-01: Budget Line Item Variance**

**Nature of Finding:** Significant Deficiency in Internal Control

**Condition:** We noted that actual expenditures for the “Other” expense budget category exceeded the budget for that line item, as presented on the approved Application for Federal Assistance (SF424) by more than ten percent of the grant’s total budget. Our calculation of the budget variance is provided in the table below.

Budget Category	Budget Amount per SF 424	Actual Expenditure Amount	Difference	10% Budget Variance Threshold	Amount Requiring DoD Approval
Other	\$285,660	\$561,002	\$275,342	\$134,826	\$140,516

FAUAF did not provide evidence of a written request for prior approval of expenditures under the “Other” budget line item in excess of ten percent of the overall budget as required in the grant agreement. Because FAUAF obtained confirmation of retroactive approval of the budget reallocation from the DoD contracting officer in response to the preliminary finding presented by the auditor, no costs were questioned. However, this circumstance indicated a significant deficiency existed in FAUAF’s budgetary controls that may result in non-compliance with award terms and conditions in the future, if not corrected.

**Criteria:** Under section H.8 of the grant agreement entitled, REVISION OF BUDGET AND/OR PROGRAM PLANS, it states that the budget plan is the financial expression of the project or program as approved during the award process. Recipients are required to report deviations from budget and program plans, and request prior approvals for budget and program plan revisions, in accordance with 32 CFR 34.15 and this Article. When requesting approval for budget revisions, the Recipient shall use the budget forms that were used in the application unless the Grants Officer indicates a letter of request suffices.

The grant agreement’s GRANT SCHEDULE, paragraph 3(e), states, “The Recipient’s Application for Federal Assistance (SF 424), Budget Information (SF 424C), and Budget Narrative are incorporated herein by reference with the same force and effect as if set forth in full text.”

**Per section H.8.1,** the Recipient shall immediately request, in writing, prior approval from the Grants Officer when there is reason to believe that a programmatic or budgetary revision will be necessary, as follows. All other budget related reasons have been waived.

- (a) Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval) (32 CFR 34.15 (c)(1)(i);
- (b) The need for additional Federal funding (32 CFR 34.15 (c)(1)(ii);
- (c) The transfer of funds among direct cost categories, functions and activities when the cumulative amount of such transfers is expected to exceed TEN percent (10%) of the total budget as last approved by the Grants Officer and/or AGO (32 CFR 34.15 (c)(3)(i).

**Cause:** According to FAUAF, security requirements were considerably more extensive than when the budget was prepared. To fund the additional security needs, FAUAF reallocated funds from the contractual line item to “Other” budget line item within the overall budgetary framework. FAUAF did so by contracting locally-based consultants instead of using more expensive international consultants. Based on FAUAF comments, TFBSO was closely monitoring the project on the ground and it was FAUAF’s understanding there was verbal approval every step of the way concerning FAUAF’s security needs. FAUAF further asserts that, in fact, advisers from TFBSO security team assisted FAUAF in designing the security protocol, and for the KBI, there was a broader range of visitors outside the student population so security enhancement was key to assure the safety of all concerned. We determined that FAUAF did not provide evidence of a prior written budget revision approval request to exceed the budgeted amount for “Other” costs by more than 10% of the overall budget because of FAUAF’s limited understanding of budget approval requirements contained in its grant agreement and lack of a formal budget revision process that was structured to adhere to the grant requirements.

**Effect:** The lack of formal budget revision policies and procedures that complied with the grant terms and conditions resulted in FAUAF not submitting a prior written approval request to the DoD contracting officer for the reallocation of funds within the budget line items that exceeded 10% of the overall budget as required by the grant terms and conditions. Without adequate internal controls over budget revisions, the risk of Federal funds being spent on unallowable costs is increased. We note, however, that on February 2, 2018, the DoD contracting officer provided her assessment of the re-allocation of the budget line items and agreed to retroactively waive the prior approval requirement due to the deteriorating security conditions that existed in Afghanistan and TFBSO’s general concurrence with the project’s enhanced security needs at that time.

**Recommendation:** We recommend FAUAF:

1. Improve its policies and procedures to include a required certification that the budget revision complies with the grant terms and conditions before processing any budget revision.

## Finding 2017-02: Unsupported Labor Costs

**Nature of Finding:** Material Weakness in Internal Control and Non-compliance

**Condition:** For two employees, FAUAF charged \$85,725 as salaries and \$31,118 as fringe benefits to the grant. According to the final general ledger<sup>7</sup>, FAUAF reduced the salary charged to the grant by \$5,750 to account for labor costs through January 7, 2014, but it made no adjustments to the corresponding fringe benefit costs charged. We recalculated the payroll hours that should have been allocated to the grant and determined the total labor charge based on the recalculated hours for the two employees should have been \$70,223. We recalculated the fringe benefits by applying a 36.3% fixed rate to the recalculated salaries, which resulted in actual fringe benefit cost of \$25,491 through January 7, 2014. Thus, according to our calculations, FAUAF overstated direct labor by \$9,752 and fringe costs by \$5,627 for these employees, and associated indirect costs by \$2,769.

FAUAF charged direct labor costs to the grant for support staff of its sub-grantee AUAF. These charges included \$45,000 for AUAF's Chief Finance Officer and Human Resources Director. Such costs are typically charged as indirect costs, not direct costs, and FAUAF did not provide support for the allocation methodology used to determine the amount chargeable to the grant for these individuals."

The questioned labor costs, fringe benefits and indirect costs were calculated as follows:

Employee	Labor or Fringe Benefits Category	Charged Amount	Auditor Calculated Amount	Questioned Cost
	Labor	\$35,325	\$30,133	\$5,192
	Labor	50,400	40,090	10,310
Both	FAUAF Labor adjustment	(5,750)	N/A	(5,750)
AUAF Support Staff	Labor	45,000	0	45,000
AUAF Direct Staff	Labor	25,072	25,072	0
<b>Labor Subtotals</b>		<b>\$150,047</b>	<b>\$95,295</b>	<b>\$54,752</b>
	Fringe Benefits	\$12,823	\$10,938	\$1,885
	Fringe Benefits	18,295	14,553	3,742
AUAF Direct Staff	Fringe	650	650	0
<b>Fringe Subtotals</b>		<b>\$31,768</b>	<b>\$26,141</b>	<b>\$5,627</b>
<b>Subtotal</b>		<b>\$181,815</b>	<b>\$121,436</b>	<b>\$60,379</b>
	Indirect costs at 18%	\$32,727	\$21,858	\$10,869
<b>Total</b>		<b>\$214,542</b>	<b>\$143,294</b>	<b>\$71,248</b>

<sup>7</sup> The auditor received multiple general ledgers from FAUAF. The final general ledger is the one FAUAF confirmed as the general ledger used to prepare the special purpose financial statement.

**Criteria:** Per 2 CFR Part 230, Appendix B, 8.m.(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8.m.(2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency. (See subparagraph E.2 of Appendix A to this part.) (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rate(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function).

The approved fringe benefits budget was set at \$60,600, or 36.3% of the direct labor costs per sections A and B of the approved budget proposal.

Per the grant award, Section B, item 3(e), states that the Recipient's Application for Federal Assistance (SF 424), Budget Information (SF 424C), and the Budget Narrative are incorporated herein by reference with the same force and effect as if set forth in full text. The budget narrative in FAUAF's approved proposal, under section J, defines indirect costs as 18% of direct costs based on the AUAF policy. The AUAF indirect cost policy cited in the FAUAF approved proposal includes a "portion of the procurement, HR, IT, finance, facilities, transportation, etc." Thus, indirect costs include AUAF's Chief Financial Officer and Human Resources Director's salaries based on FAUAF's indirect cost definition.

**Cause:** FAUAF did not implement effective policies and procedures to accurately allocate hours reported in the payroll records to the associated labor costs and fringe benefits charged to the grant under audit on a consistent basis. As such, we determined the posting of labor and fringe benefit charges to the grant were not sufficiently reviewed by management to ensure the amounts posted were adequately supported and complied with the budget requirements.

**Effect:** The allocation of labor costs and fringe benefits to the grant, which was not supported, indicates an internal control weakness and noncompliance with the requirements that diminishes FAUAF's ability to ensure that payroll costs charged to the award are accurate and decreases DoD's ability to rely on such assurance. Further, there is greater risk of Federal funds being used to pay for unsupported labor costs under the FAUAF award in addition to the amount we reported as questioned costs.

**Recommendation:** We recommend that FAUAF management:

1. Strengthen its internal controls by implementing policies and procedures over allocation, review and reconciliation of payroll hours charged to the grant by requiring a management review and sign-off that the payroll costs and fringe benefits reconcile to and are supported by the payroll records.
2. Provide DoD's assigned grants officer for this award with documentation that supports all payroll costs incurred or reimburse DoD for unsupported labor and fringe costs, which we calculated as \$71,248.

**Finding 2017-03: Unsupported Non- Labor Costs**

**Nature of Finding:** Internal Control Deficiency and Non-compliance

**Condition:** During testing of non-labor incurred costs, we identified unsupported costs in the amount of \$9,759 for which documentation, such as invoices and bills, were not provided to us. We also observed that an invoice for \$181 was billed twice for a phone bill, another invoice was overcharged by \$50, and an accrual used to book an expenditure exceeded the actual costs in the amount of \$103. Indirect costs of 18% were charged to these unsupported costs.

We questioned unsupported incurred costs as depicted in the table below:

Sample	Description	Issue	Questioned Cost
43	Accrued equipment expenses	Missing or incomplete supporting documentation	\$9,759
22	Allocation of pre-award phone costs	Invoice previously claimed as a cost (tested in sample 21)	\$181
3	Allocation of pre-award legal fees	Overcharge on one invoice	\$50
43	Accrued equipment expenses	Accrual of \$26,999 charged to grant was greater than the actual cost of \$26,896	\$103
<b>Totals</b>			<b>\$10,093</b>
	Indirect cost at 18%	Unsupported indirect cost	1,817
<b>Total questioned cost</b>			<b>\$11,910</b>

**Criteria:** Title 2 CFR, Part 215, Subpart C, sub-section 215.53 provides retention and access requirements for records. (a) This section sets forth requirements for record retention and access to records for awards to recipients. Federal awarding agencies shall not impose any other record retention or access requirements upon recipients. (b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Federal awarding agency.

Per the grant award, Section B, item 3(e), states that the Recipient's Application for Federal Assistance (SF 424), Budget Information (SF 424C), and the Budget Narrative are incorporated herein by reference with the same force and effect as if set forth in full text. The budget narrative in FAUAF's approved proposal, under section J, defines indirect costs as 18% of direct costs.

**Cause:** FAUAF did not develop and implement adequate internal controls to ensure that appropriate documents were retained and readily available to support costs incurred and billed to DoD. For example, FAUAF did not fully implement a system to mitigate the risk of loss of supporting documentation in a high-risk environment through maintenance of duplicate copies of all source documents at its headquarters. FAUAF also did not implement effective procedures to review invoices for accuracy before they were billed to DoD, and FAUAF did not properly institute accrual procedures to timely record accrual reversals and postings of actual costs in all instances.

**Effect:** Because FAUAF did not maintain source documentation to support all costs incurred and did not fully enforce internal controls to ensure all billings and recorded expenditures were accurate, the risk of unallowable expenditure of Federal funds is increased.

**Recommendation:** We recommend that FAUAF:

1. Enforce requirements under the regulations through implementation of procedures for retention of records for the prescribed period and posting accrual entries and reversals in accordance with generally accepted accounting principles.
2. Provide DoD's assigned grants officer for this award with documentation to adequately support the questioned costs or reimburse unsupported costs billed to DoD, which we calculated in the amount of \$11,910.



**Finding 2017-04: Incurred Costs Not Within Performance Period**

**Nature of Finding:** Internal Control Deficiency and Non-compliance

**Condition:** During testing of incurred costs and review of supporting documentation, we noted the following costs were incurred prior to or after the performance period, but were billed to DoD for the grant period under our audit:

1. Accounting work invoice in the amount of \$1,000 charged to the grant during the period has an invoice date of September 2014 with no other identification on the invoice of the period for which services were provided.
2. Pre-award telephone charges totaling \$250, which were incurred more than 90 days before the award starting date.

The questioned ineligible costs are summarized as follows:

Sample	Description	Issue	Questioned Cost
11	Accounting work for close out of Phase I	Invoice is dated 9/5/2014 for work subsequent to performance period	\$1,000
22	Allocation of pre-award phone costs	Invoice is for a period (3/8-4/7/2013) that is outside the approved performance period	\$250
<b>TOTAL</b>			<b>\$1,250</b>
	Indirect cost	18% allocated to direct costs	\$ 225
<b>Total Questioned Cost</b>			<b>\$1,475</b>

**Criteria:** In accordance with 2 CFR Part 230, Appendix A, subsection 2, 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. (g) Be adequately documented.

Pursuant to the grant agreement with DoD, the grant term is from July 8, 2013 through January 7, 2014 (a no-cost modification extended the performance period to June 30, 2014). Under section 13 of the award, entitled PREAWARD COSTS, the recipient is authorized pre-award costs, up to 90 days prior to the Grant award date of July 8, 2013.

**Cause:** FAUAF did not implement effective policies and procedures to review and compare the dates of the invoices and receipts with the timeframe in which allowable and allocable costs may be incurred and subject to reimbursement.

**Effect:** Inadequate policies and procedures for review of invoices resulted in overbilled costs to DoD in the amount of \$1,475, which we determined as questioned costs. Further, there is an increased risk that other ineligible costs may be presented for reimbursement and reimbursed erroneously by the Government.

**Recommendation:** We recommend that FAUAF management:

1. Improve and reinforce its procedures by requiring supervisory review of invoices and receipts before billing to DoD to ensure that the supporting documentation for such costs belong to the period allowed in the grant.
2. Reimburse DoD for costs incurred for the period not authorized under the terms of the grant, which we calculated as \$1,475.

**Finding 2017-05: Unjustified Business Class Travel Costs****Nature of Finding:** Non-compliance

**Condition:** During testing of incurred costs and review of supporting documentation, we identified one instance where an FAUAF employee traveled between Washington Dulles and Dubai airports using business class travel, for which an appropriate justification to support the reasonableness of the higher cost airfare was not provided. The cost of the airfare was \$5,753 whereas we estimate the economy class airfare could have cost \$1,296, thereby resulting in excessive direct cost of \$4,457 and indirect cost of eighteen percent of direct cost, or \$802. A summary of the questioned costs is presented below:

(A) Business Class Airfare	(B) Economy Airfare	(C) Difference A - B	(D) 18% Indirect Cost (C x 18%)	Total Questioned Cost (C+D)
\$5,753	\$1,296	\$4,457	\$802	\$5,259

**Criteria:** In accordance with 2 CFR Part 230, Appendix A, subsection 2, 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; and (g) Be adequately documented.

In section H.3 of the grant agreement, it states that applicable to this award, and incorporated herein by reference, are the requirements of 48 CFR Par 31, Contract Cost Principles and Procedures, and Subpart 31.2, Contracts with Commercial Organizations. Under 48 CFR, subsection 31.205-46(b), Airfare costs in excess of the lowest priced airfare available to the contractor during normal business hours are unallowable except when such accommodations require circuitous routing, require travel during unreasonable hours, excessively prolong travel, result in increased cost that would offset transportation savings, are not reasonably adequate for the physical or medical needs of the traveler, or are not reasonably available to meet mission requirements. However, in order for airfare costs in excess of the above airfare to be allowable, the applicable condition(s) set forth above must be documented and justified.

Per the grant award, Section B, item 3(e), states that the Recipient's Application for Federal Assistance (SF 424), Budget Information (SF 424C), and the Budget Narrative are incorporated herein by reference with the same force and effect as if set forth in full text. The budget narrative in FAUAF's approved proposal, under section J, defines indirect costs as 18% of direct costs.

**Cause:** FAUAF did not implement effective policies and procedures to ensure proper documentation to justify the reasonableness of business class travel in the instance we noted.

**Effect:** Lack of implementation of effective policies and procedures for documenting the reasonableness or necessity of business class travel in all instances, resulted in overbilled costs to DoD in the amount of \$5,259, which we determined as questioned costs. This condition also increases the risk of overbilling the government for other travel costs that may be unallowable under the applicable regulations.

**Recommendation:** We recommend that FAUAF management:

1. Improve its procedures for travel by requiring business class airline tickets be accompanied by a justification that supports the reasonableness of such costs in accordance with regulatory requirements before billing DoD.
2. Provide DoD's assigned grants officer for this award with documentation to adequately support the questioned costs or reimburse DoD for costs incurred for the excessive airfare, which we calculated as \$5,259.

**Finding 2017-06: Miscalculation of Indirect Costs**

**Nature of Finding:** Internal Control Deficiency and Non-compliance

**Condition:** We reviewed the FAUAF general ledger and noted that FAUAF did not record indirect costs correctly. FAUAF calculated indirect costs based on preliminary and incomplete direct cost information. We re-calculated the indirect costs as follows:

Direct costs per SPFS	\$906,087
Less subcontract amounts in excess of \$25,000	( 61,622)
Total Direct Costs available for indirect cost calculation	\$844,465
Times Indirect Cost Rate	18%
Revised Indirect Cost	\$152,004

**Criteria:** Per the grant award, Section B, item 3(e), states that the Recipient's Application for Federal Assistance (SF 424), Budget Information (SF 424C), and the Budget Narrative are incorporated herein by reference with the same force and effect as if set forth in full text. Per the FAUAF Budget Narrative, Section J, indirect charges are calculated as 18% of total direct charges.

Under 2 CFR, Part 230, Appendix A, Section D.3.f, indirect costs shall be distributed to applicable sponsored awards and other benefitting activities within each major function on the basis of modified total direct costs (MTDC). MTDC consists of all salaries and wages, fringe benefits, materials and supplies, services, travel, and subgrants and subcontracts up to the first \$25,000 of each subgrant or subcontract (regardless of the period covered by the subgrant or subcontract).

**Cause:** In general, FAUAF lacked adequate procedures to validate and calculate indirect costs prior to recording such costs in its general ledger. We also noted that FAUAF staff used incomplete direct cost information to calculate indirect costs. The lack of written procedures for calculating indirect costs and the use of incomplete direct cost information, led to erroneous indirect cost postings in the general ledger.

**Effect:** The inadequate procedures for calculating and validating indirect costs resulted in the understatement of indirect costs for the project on FAUAF's general ledger. We estimate that FAUAF under-reported indirect costs by \$16,138 based on the documentation we reviewed. The under reporting of indirect costs diminishes DoD's ability to rely on FAUAF's financial reports as an accurate depiction of total costs incurred.

**Recommendation:** We recommend FAUAF:

1. Develop and implement procedures to properly calculate and report on indirect costs according to the applicable grant requirements and ensure staff responsible for reporting financial transactions are sufficiently trained to accurately and correctly implement these procedures.

2. Revise its financial reports submitted to DoD to reflect the correct indirect costs for the period under review.

**Attachment B - Management Response to Findings and Recommendations****Finding 2017-1: Budget Line Item Variance****Management Response:**

Expenditures under the "Other" expense budget category exceeded the budget line item by \$275,342 due to unforeseen but necessary security enhancements to the campus. FAUAF was observant of the need for approval prior to incurring costs that exceeded ten percent of the budgeted line item which is why we coordinated closely with the TFBSO team on the ground and advised them of changing circumstances in real time. The transfer of funds among other direct cost categories to "Other" was permitted and approved verbally by TFBSO at the time. There was no request for additional funding. Funds came from savings from other line items.

This approval was memorialized in writing by Contracting Officer Kellie Buck in a memorandum dated February 2, 2018 stating, in part, "[e]xpenditures were accumulated due to unforeseen but necessary security enhancements to ensure the continuity of performance under the grant. The Grants Officer is fully aware of the environment and conditions of the place and performance of the grant. At the time, Afghanistan was considered by the Department of Defense as a theater area in which it may become directly involved in the conduct of war. As a result, TFBSO [sic] strongly recommended for the increase in security. Prior approval for the increased line item was required as the cumulative amount of the transfer exceeded ten (10%) percent of the total budget. However, due [to] the contingency environment decisions are made quickly to ensure the safety of personnel... There is no objection to the transfer as the grantee acted in accordance with the direction of TFBSO. Further, TFBSO was responsible for approving all expenditures for the grant and was aware of the expenses."

It is FAUAF's position that its budgetary and other controls worked properly to 1) incur only those costs necessary and reasonable to implement project objectives; 2) identify when costs for a budgeted line item exceed what is allowed per the grant; and 3) obtain approval from DoD prior to incurring these excess costs. However, FAUAF acknowledges that it should have obtained TFBSO's approval in writing and not relied only on verbal approval. Going forward, FAUAF will ensure that written approval for incurring costs that exceed grant allowance be obtained and maintained in its records.

Therefore, FAUAF respectfully requests that Williams Adley consider the nature of this finding to be an "other deficiency" and not a significant deficiency in internal control.

**Finding 2017-02: Unsupported Labor Costs****Management Response:**

Upon receipt of the final Special Purpose Financial Statement Audit Report from Williams Adley, FAUAF and its outside consultants took a closer look at salaries and timesheets for the two employees (AC and KC) subject to the questioned costs. Inclusive of vacation, holiday, and sick hours for AC as noted in her timesheets, there are 189 hours that were unaccounted for by Williams Adley. Based on a 65% allocation to the award for her time, there should be a \$2,954 adjustment to the Auditor Calculated Amount for labor for AC.

Similarly, inclusive of vacation, holiday, and sick hours for KC as noted in her timesheets, there are 233 hours that were unaccounted for by Williams Adley. Based on a 58% allocation to the award for her





time, there should be a \$4,649 adjustment to the Auditor Calculated Amount for labor for KC. Please see below:

Employee	Labor or Fringe Benefits Category	Charged Amount	Auditor Calculated Amount	Original Questioned Cost	Adjustment for vacation and holidays	Actual Questioned Cost
AC	Labor	\$35,325	\$30,133	\$5,192	\$2,954	\$2,238
KC	Labor	50,400	40,090	\$10,310	4,649	\$5,661
Both	FAUAF Labor Adjustment	-5,750	N/A	(\$5,750)	-	(\$5,750)
AUAF Support Staff	Labor	45,000	-	\$45,000	-	\$45,000
AUAF Direct Staff	Labor	25,072	25,072	\$-	-	\$-
<b>Labor Subtotals</b>		<b>\$150,047</b>	<b>\$95,295</b>	<b>\$54,752</b>	<b>\$7,603</b>	<b>\$47,149</b>
AC	Fringe Benefits	12,823	10,938	1,885	1,072	813
KC	Fringe Benefits	18,295	14,553	3,742	1,688	2,054
AUAF Direct Staff	Fringe	650	650	-	-	-
<b>Fringe Subtotals</b>		<b>\$31,768</b>	<b>\$26,141</b>	<b>\$5,627</b>	<b>\$2,760</b>	<b>\$2,867</b>
<b>Subtotal</b>		<b>\$181,815</b>	<b>\$121,436</b>	<b>\$60,379</b>	<b>\$10,363</b>	<b>\$50,016</b>
Indirect costs at 18%		\$32,727	\$21,858	\$10,869	\$1,865	\$9,004
<b>Total</b>		<b>\$214,542</b>	<b>\$143,294</b>	<b>\$71,248</b>	<b>\$12,228</b>	<b>\$59,020</b>

Per review of AC's timesheets for the period we noted that she had 189 hours in total for vacation, holidays and sick hours, here is the calculation:

Annual Salary	\$56,000	
Total hours worked	2,340	
Hourly rate	\$23.93	
Vacation, holidays hours	189	
	\$4,523.08	
	65%	Based on the auditors' calculation of actual hours charged to the grant 65.3% of AC time
	<b>\$2,953.57</b>	Adjustment for vacation and holidays

Per review of KC's timesheets for the period we noted that she had 233 hours in total for vacation, holidays and sick hours, here is the calculation:

Annual Salary	\$80,500	
Total hours worked	2,340	
Hourly rate	\$34.40	
Vacation, holidays hours	233	
	\$8,015.60	
	58%	Based on the auditors' calculation of actual hours charged to the grant 58.8% of KC time
	<b>\$4,649.05</b>	Adjustment for vacation and holidays

As a consequence of the actual labor costs, inclusive of vacation and holidays, the Auditor Calculated Amount of fringe benefit costs should be recalculated by applying a 36.3% fixed rate to the correct





allocated salary amounts for AC (\$2,954) and KC (\$4,649). This means an adjustment of \$1,072 should be applied to fringe benefits for AC and \$1,688 for KC (please see above).

Therefore, FAUAF respectfully requests that Williams Adley include the adjustments for vacation and holidays to its Auditor Calculated Amount for labor and recalculated fringe benefit costs to its Auditor Calculated Amount for fringe benefits.

AUAF provided supporting documentation for the \$45,000 in support staff costs tested by Williams Adley. FAUAF attempted to obtain further documentation from AUAF to support the allocation methodology used to determine the amount chargeable to the grant for the two employees, however, AUAF was not able to provide sufficient explanatory documentation.

Therefore, FAUAF accepts the \$45,000 in questioned cost for AUAF support staff labor.

#### **Finding 2017-03: Unsupported Non-Labor Costs**

##### **Management Response:**

AUAF provided substantial supporting documentation for Sample 43 (accrued equipment expenses). FAUAF attempted to obtain further documentation from AUAF, as requested by Williams Adley, however, AUAF was not able to locate more documentation in its files.

Therefore, FAUAF accepts this finding.

#### **Finding 2017-04: Incurred Costs Not Within Performance Period**

##### **Management Response:**

FAUAF acknowledges that accounting work for close out of Phase 1 (Sample 11) should have been charged under Phase 2 of the award. While this was a reasonable and allowable expense, FAUAF external accountant erroneously allocated it under Phase 1. Going forward, FAUAF plans on utilizing the services of a different accounting firm and ensuring that incurred costs are properly allocated.

Therefore, FAUAF accepts this finding.

FAUAF acknowledges that the phone costs (Sample 22), while allowable and reasonable because they were incurred for purposes of the Phase I award, fell outside of the approved performance period.

Therefore, FAUAF accepts this finding.

#### **Finding 2017-05: Unjustified Business Class Travel Costs**

##### **Management Response:**

FAUAF is aware that travel regulations require economy class, except in limited circumstances. We believe that a limited exception existed in this instance and that there was an appropriate justification to support the reasonableness of this cost. The purpose of this airfare was for FAUAF's President, Leslie



Schweitzer,<sup>1</sup> to attend a meeting with TFBSO in Kabul with very short notice. A business class ticket was issued because it was the only available option that could get Schweitzer to Kabul in time to prepare for meetings with TFBSO. Additionally, we believe that the “14-hour rule” for premium class airfare is applicable in this case and permissible under 41 C.F.R. part 301 “[w]here the origin and/or destination are [outside the continental United States] and the scheduled flight time, including stopovers and change of planes, is in excess of 14 hours.” The flight time for the travel at issue was 15 hours (11.5 hours from Washington, D.C. to Dubai, 2.5 hour layover, and 1 hour from Dubai to Kabul).

FAUAF understands that coach-class airfare is required as a general rule. However, we feel that the circumstances for this cost fall under the limited circumstances exception.

Therefore, FAUAF respectfully requests that Williams Adley find the \$5,753 in business class airfare allowable and remove the questioned cost.

#### **Finding 2017-06: Miscalculation of Indirect Costs**

##### **Management Response:**

FAUAF acknowledges that its external accountant used incomplete direct cost information to calculate indirect costs. As a result, FAUAF under-reported indirect costs by \$16,138. This was an error made by FAUAF’s accountant. Going forward, FAUAF plans on utilizing the services of a different accounting firm and ensuring that FAUAF staff are properly trained to ensure proper calculation of indirect costs.

In lieu of requesting that DoD retroactively reimburse FAUAF for under-reported indirect costs under Phase I, FAUAF respectfully requests that DoD use the \$16,138 to offset any questioned costs it deems final from SIGAR’s financial audit of costs incurred under this grant award period.

Date:

April 11, 2018

Signed:

Name: Leslie M. Schweitzer  
Position: Chairman and President

<sup>1</sup> Leslie Schweitzer is a volunteer and not a FAUAF employee.

## Attachment C - Auditor's Response

Williams Adley, in consideration of the views of FAUAF management, presents its rebuttal and clarification to certain matters. In those instances where management's response as per Attachment B above did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we did not provide a response.

### Finding 2017-01 Budget Line Item Variance

We understand, based on the subsequent evidence presented, DoD acknowledged that TFBSO recommended the increase in security, which resulted in a significant budget variance requiring the DoD Grants Officer approval that was ultimately provided. However, the issue at hand is that FAUAF should have requested this approval in writing in 2013 once FAUAF became aware the additional security costs would cause the "Other" budget line item to be exceeded by more than ten percent, as required by the grant agreement. The failure to do so placed FAUAF at unnecessary risk of significant costs being disallowed. Therefore, the identification of this finding as a significant internal control weakness remains as stated.

### Finding 2017-02 Unsupported Labor Cost

We reviewed management's calculations for adjustments to the questioned costs and disagree with those calculations. We considered holidays and vacations in our revised calculations, which were used to determine the questioned costs. Further, FAUAF used a percentage of the annual holiday and vacation hours to determine adjustment amounts, whereas the auditor used the actual timesheets for the period under audit, which are more accurate. As a result, the finding and recommendation remain as stated.

### Finding 2017-05 Unjustified Business Class Travel

We understand that FAUAF believes its explanation for the business class travel in management's official response appears to fall within the limited exceptions allowed under the applicable regulations. However, this after-the-fact explanation is not based on documentation presented to the auditor at the time the cost was questioned. The assertion that it was the only available option to get the individual "to Kabul in time to prepare for meetings with TFBSO" is a subjective statement that requires further evidence to support management's conclusion. No such evidence was presented. Therefore, the finding and recommendation remain as stated.

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