

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 20-17 Financial Audit

USAID's Private Sector-Led Model of Sustainable Social and Economic Development in Afghanistan's Badakhshan Province: Audit of Costs Incurred by the Aga Khan Foundation

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



JANUARY
2020

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 23, 2013, the U.S. Agency for International Development (USAID) awarded a \$61,147,036 collaborative agreement to the Aga Khan Foundation to support the Multi-Input Area Development Global Development Alliance. The alliance's goal was to promote a private sector-led model of sustainable social and economic development in Afghanistan's Badakhshan Province. The alliance's objectives were to improve quality life of residents and stimulate economic development through creating jobs and generating income. After 14 modifications, the total USAID funding decreased to \$21,445,265, and the period of performance was extended from March 22, 2018, through June 15, 2018.

SIGAR's financial audit, performed by Williams Adley & Company-DC LLP (Williams Adley), reviewed \$20,494,370 in costs charged to the agreement from January 1, 2016, through June 15, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Aga Khan's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Aga Khan has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Aga Khan'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.

January 2020

USAID's Private Sector-Led Model of Sustainable Social and Economic Development in Afghanistan's Badakhshan Province: Audit of Costs Incurred by the Aga Khan Foundation

SIGAR 20-17-FA

WHAT SIGAR FOUND

Williams Adley identified one significant deficiency in the Aga Kahn Foundation's internal controls, one instance of material noncompliance and two instances of noncompliance with the terms of the agreement. The auditors determined that Aga Khan did not provide the required cost share, which resulted in \$3,700,659 in questioned costs. The auditors also found that Aga Khan did not have a process in place to assign responsibility for tracking and reporting its cost share accurately, consistently, and in a timely manner. In addition, Aga Khan did not follow federal procurement requirements when it awarded a sole-source contract to a vendor without USAID's approval.

Because of the internal control deficiency and instances of noncompliance, Williams Adley identified \$3,703,712 in total questioned costs, consisting of \$3,053 in ineligible costs—costs prohibited by the contract, applicable laws, or regulations—and \$3,700,659 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Other Direct Costs	\$2,392	\$0	\$2,392
Indirect Costs	\$661	\$0	\$661
Cost Share	\$0	\$3,700,659	\$3,700,659
Total Costs	\$3,053	\$3,700,659	\$3,703,712

Williams Adley identified two prior audit reports that were relevant to the Aga Kahn Foundation's agreement. The reports had six findings, one of which had a material effect on the SPFS. Williams Adley conducted follow-up procedures and concluded that Aga Kahn had taken adequate corrective action on three of the findings. The other three remain open.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$3,703,712 in questioned costs identified in the report.
2. Advise the Aga Kahn Foundation to address the report's one internal control finding.
3. Advise the Aga Khan Foundation to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 10, 2020

The Honorable Mark Green
Administrator, U.S. Agency for International Development

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Williams Adley & Company-DC LLP (Williams Adley) to audit the costs incurred by the Aga Khan Foundation under a collaborative agreement from the U.S. Agency for International Development (USAID) to support the Multi-Input Area Development Global Development Alliance.¹ The alliance's goal was to promote a private sector-led model of sustainable social and economic development in Afghanistan's Badakhshan Province. The alliance's objectives were to improve quality life of residents and stimulate economic development through creating jobs and generating income. Williams Adley reviewed \$20,494,370 in costs charged to the agreement from January 1, 2016, through June 15, 2018. Our contract with Williams Adley required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$3,703,712 in questioned costs identified in the report.**
- 2. Advise the Aga Khan Foundation to address the report's one internal control finding.**
- 3. Advise the Aga Khan Foundation to address the report's three noncompliance findings.**

The results of Williams Adley's audit are discussed in detail in the attached report. We reviewed Williams Adley'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 the foundation's Special Purpose Financial Statement. We also express no opinion on the effectiveness of the foundation's internal control or compliance with the agreement, 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 in which Williams Adley did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-147)

¹ The agreement number is AID-306-A-13-00002.

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

Audit F-147

Financial Audit of Costs Incurred

by

Aga Khan Foundation

Under

Collaborative Agreement Number AID-306-A-13-00002

For the Period

January 1, 2016 through June 15, 2018

Submitted by



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Transmittal Letter

September 10, 2019

Board of Directors
Aga Khan Foundation USA
1825 K Street NW, Suite 901
Washington, DC 20006

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

We hereby provide to you our final report, which reflects results from the procedures we completed during our audit of Aga Khan Foundation USA (AKF) collaborative agreement number AID-306-A-13-00002 with the United States Agency for International Development to support the Multi-Input Area Development Global Development Alliance in Afghanistan.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide 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, Report on Internal Control or Report on Compliance.

When preparing our reports, we considered comments, feedback and interpretations provided by AKF and SIGAR, in writing and orally, throughout the audit. AKF's responses to the audit reports and our corresponding auditor analysis are incorporated herein following our audit reports.

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

Sincerely,

A handwritten signature in blue ink, appearing to read 'Jocelyn Hill', is written over a circular blue ink stamp.

Jocelyn Hill, CPA
Partner

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

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Summary

Background

On March 23, 2013, the United States Agency for International Development (USAID) signed a \$61.1 million collaborative agreement number AID-306-A-13-00002 with the Aga Khan Foundation USA (AKF) to support the Multi-Input Area Development Global Development Alliance (MIAD GDA or the "Alliance"), which included \$30.4 million in USAID estimated costs and \$30.7 million in cost share. The goal of the Alliance was to promote a private sector led model of sustainable social and economic development in Badakhshan Province to reduce economic, social and gender inequalities through two related objectives. The Alliance's objectives were to design and develop a program to: (1) Improve the quality of life for residents and improve social and economic development in Badakhshan Province; and (2) undertake investments in economic driver projects through appropriate investment structures, including a financing facility to create jobs, stimulate economic development and generate income for social development.

Under the first objective, expected results included: 1) Improved health status in Badakhshan; 2) Strengthened education system in Badakhshan through human resource and institutional interventions; 3) Improved rural livelihood systems in Badakhshan; and 4) Improved sub-national governance systems in Badakhshan. Partner agencies engaged under Strategic Objective 1 included the Aga Khan Foundation Afghanistan, the Aga Khan Health Services Afghanistan, and the University of Central Asia. AKF, as the prime recipient of USAID funds, held management, coordination and oversight responsibilities for the project.

For the second objective, expected results included: 1) Funds invested in viable economic drivers; and 2) Establishment of a trust mechanism. AKF worked with the Aga Khan Fund for Economic Development to develop an appropriate portfolio of investments. The principal and 100% of the returns attributable to USAID and 99% of the net investment returns attributable to AKF internal funds will be used to fund social programming in Badakhshan through a trust arrangement.

After 14 modifications, the total USAID funding was decreased to \$21.4 million, cost share increased to \$42.7 million and the period of performance was extended from March 22, 2018 through June 15, 2018.

Our audit procedures under this audit covered revenues and expenditures of \$12.6 million in direct costs for Strategic Objective 1 and a cost share of \$7.9 million during the period January 1, 2016 through June 15, 2018.

Table 1: AKF Agreement with Modifications

Agreement Activity	Date	Purpose
Initial Award	03/23/2013	Award execution
Modification 1	03/04/2014	AOR Change
Modification 2	06/19/2014	Branding
Modification 3	01/22/2015	Incorporate IPN & DDL
Modification 4	02/10/2015	Language change
Modification 5	03/18/2015	Incremental Funding
Modification 6	07/13/2015	Incremental Funding
Modification 7	07/30/2015	Geographic Code
Modification 8	01/30/2016	Incremental Funding
Modification 9	08/04/2016	Incremental Funding
Modification 10	02/13/2017	Incremental Funding
Modification 11	05/06/2017	Program Statement
Modification 12	11/15/2017	Incremental Funding
Modification 13	01/23/2018	No Cost Extension
Modification 14	05/10/2018	De-obligation

Work Performed

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted Williams, Adley & Company-DC, LLP (Williams Adley) to conduct a financial audit of revenues, costs incurred, items directly procured by the United States Government and the balances for the period audited under collaborative agreement AID-306-A-13-00002 and associated modifications awarded to AKF for the period of January 1, 2016 through June 15, 2018.

Objectives

The following are the objectives of the audit defined by SIGAR:

Audit Objective 1 - Special Purpose Financial Statement (SPFS)

Express an opinion on whether the Special Purpose Financial Statement for the AKF collaborative agreement presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 - Internal Controls

Evaluate and obtain a sufficient understanding of AKF's internal controls 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 AKF 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 AKF has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The audit scope included the USAID collaborative agreement AID-306-A-13-00002 and related modifications executed for revenues applied to and costs incurred during the period between January 1, 2016 and June 15, 2018 as reported on the SPFS. The audit was limited to those matters pertinent to the agreement that have a direct and material effect on the SPFS and included an evaluation of the presentation, content and records supporting the SPFS. The following areas were included within the audit program for detailed evaluation:

- i. Administrative Procedures and Fraud Risk Assessment
- ii. Budget Management
- iii. Cash Management
- iv. Disbursement and Financial Reporting
- v. Procurement and Inventory Management

Our audit was conducted to form an opinion on the SPFS in accordance with the Statement presentation requirements in Note 1. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents and Summary are presented for informational and organizational content purposes and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied in the audit of the SPFS, 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 USAID 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 auditing standards, and generally accepted government auditing standards as published in the Government Accountability Office's *Government Auditing Standards*. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the SPFS of the costs incurred under the award are free of material misstatement. An audit includes:

-
- Obtaining an understanding of AKF'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 Statement.

To meet the audit objectives, we prepared an audit plan for the engagement.

For audit objective 1, we reviewed transactions for the period from January 1, 2016 to June 15, 2018 and subsequent events and information that may have a significant impact on the SPFS for the audit period. We used both statistical and judgmental sampling techniques to select direct labor, subcontractor agreement/consultant costs, travel, and other direct cost samples to test for allowability of incurred costs, and reviewed procurement records to determine cost reasonableness. 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.

For audit objective 2, we reviewed applicable background materials, including cooperative agreements, contracts, auditee financial progress reports, USAID regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as made available and provided. We conducted our review to gain a thorough understanding of the control environment. We interviewed management and reviewed business processes to determine if critical internal controls were in place that mirrored best practices such as sufficient management oversight of business processes, proper segregation of duties, documented policies and procedures, robust financial management systems, and sufficient monitoring of controls to ensure effective implementation thereof. We assessed the control risk for sampling and testing purposes.

For audit objective 3, we performed compliance testing, as applicable, including, but not limited to: determination of allowable costs under Title 2 of the Code of Federal Regulations (CFR), parts 180 and 200, and USAID Automated Directives System (ADS) requirements; validation of indirect cost calculations pursuant to a provisional or final negotiated indirect cost rate agreement; testing cash management for funding to ensure it does not exceed the program's immediate cash needs requirements and confirm excess cash has been returned to the US Government; verify incurred cost eligibility; confirm equipment and real property management and disposal in accordance with an approved disposition plan; ensure expenditures comply with the period of availability of the Federal funds; ensure that procurement activities comply with full and open competition standards or provide justification for noncompetitive bids when applicable, and that suspension and debarment of the subcontractor or subrecipient was considered in the award decision; program income is reported and accounted for separately from donor funds; and financial reporting is accurate, timely and complete. In addition, we performed testing to assess and determine any potential fraud, abuse and illegal acts.

For audit objective 4, if prior audits indicated a need for corrective action to be taken by AKF, we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Summary of Results

Our audit of the costs incurred by AKF identified the following matters.

We issued a modified opinion on AKF's Special Purpose Financial Statement due to a material questioned cost we identified during the audit.

We identified \$3,703,712 in total questioned costs because the costs were either ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the audited collaboration agreement or applicable laws and regulations, or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered AKF's internal control over financial reporting and performed tests of those controls. We also performed tests of AKF's compliance with certain provisions of the agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed one significant deficiency in internal control required to be reported under Government Auditing Standards and three instances of noncompliance related to this audit. Where internal control and noncompliance findings pertained to the same matter, they were consolidated within a single finding. Please refer to the Independent Auditor's Report on Internal Control on page 15 and the Independent Auditor's Report on Compliance on page 17.

Table 1: Summary of Findings and Questioned Costs

Finding	Description	Classification	Ineligible Cost	Unsupported Cost	Total Questioned Costs (USD)
2019-01	Cost Share not Met	Material Noncompliance	\$0	\$3,700,659	\$3,700,659
2019-02	Sole Source Procurement	Significant deficiency in internal control and noncompliance	\$3,053	\$0	\$3,053
2019-03	Incomplete Vetting of Vendors	Noncompliance	\$0	\$0	\$0
Totals			\$3,053	\$3,700,659	\$3,703,712

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified during our testing.

Status of Prior Audit Findings

We requested copies of prior audits, reviews, and assessments pertinent to AKF activities relevant to this agreement. We identified two prior audit reports conducted by SIGAR and USAID Office of Inspector General as follow:

- SIGAR 17-23 Financial Audit, titled "Department of State's Strengthening Afghan Governance and Alternative Livelihoods Program: Audit of Costs Incurred by the Aga Khan Foundation under grant number SINLEC14GR0042" issued on January 19, 2017.
- USAID Office of Inspector General Audit Report Number F-306-17-006-N, titled "Financial Audit of Costs Incurred in Afghanistan by Aga Khan Foundation USA under Multi-Input Area Development Global Development Alliance (MIAD GDA) Collaboration Agreement No. AID-306-A-13-00002" issued on October 23, 2016.

These audits reported six findings that could have material effect on the SPFS and other financial data significant to the audit objectives.

We conducted follow-up procedures including discussions with management, reviewed evidence of corrective actions, and performed testing of similar matters during our current audit. Accordingly, we have concluded that AKF has taken adequate corrective action on three findings while three findings remain open. We determined that one finding did have a material effect on the current SPFS or other financial data significant to the audit objectives. Please see Status of Prior Audit Findings section on page 25 for a detailed description on the status of the prior audit findings.

Summary of Management Comments

The following represents a summary of the responses provided by AKF to the findings identified in this report. The complete responses received can be found in Appendix A to this report.

AKF agreed with the finding and recommendation in Finding 2019-02. For findings 2019-01 and 2019-03, AKF acknowledged the conditions presented by Williams Adley, but disagreed with the questioned cost per Finding 2019-01. For Finding 2019-03, AKF did not agree with the auditor's interpretation of costs that should be included to determine the \$25,000 threshold required for USAID vetting submissions but agreed to the recommendation associated with the finding. Our rebuttal to management comments is detailed in Appendix B of this report.

Attachments

The auditor's reports are supplemented by three attachments:

- Appendix A – Management Response to Findings and Recommendations
- Appendix B – Auditor's Response to Management Comments
- Appendix C – Life of Project Summary



Independent Auditor's Report on the Special Purpose Financial Statement

Board of Directors
Aga Khan Foundation USA
1825 K Street NW, Suite 901
Washington, DC 20006

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

We have audited the Special Purpose Financial Statement ("the Statement") of Aga Khan Foundation USA (AKF) and the related notes to the Statement, with respect to U.S. Agency for International Development (USAID) collaborative agreement number AID-306-A-13-00002 for the period January 1, 2016 through June 15, 2018.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on this Statement based on our audit. We conducted our audit in accordance with 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. 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 AKF'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 AKF'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 noncompliance in the audited cost share amount reported over the program's performance period, which contributed to \$3,703,712 in questioned costs and increases the risk of unallowable costs being paid inadvertently by USAID. The total questioned cost amount is considered material to the Statement.

Opinion

In our opinion, except for the effects of the questioned costs noted in the Basis for Qualified Opinion paragraph, the Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred, and reimbursed, and balances for the indicated period in accordance with the terms of the agreement and in conformity with the basis of accounting described below.

Basis of Accounting

We draw your attention to Note 1b to the Statement, which describes the basis of accounting. As described in Note 1b to the Statement, the Statement is prepared by AKF on the basis of the requirements provided by USAID, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 29, 2019, on our consideration of AKF'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 *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

Restriction on Use

Our report is intended solely for the information and use of AKF, USAID and 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.

Williams, Adley & Company PC, LLP
Washington, D.C.
May 29, 2019

Aga Khan Foundation USA
Special Purpose Financial Statement
January 1, 2016 to June 15, 2018

	Budget	Actual	Questioned Costs		Notes ¹
			Ineligible	Unsupported	
Revenues					
Award #					
AID-306-A-13-00002	\$12,559,770	\$12,559,769			2
Total Revenue	\$12,559,770	\$12,559,769			
Costs Incurred					
Personnel	\$4,679,844	\$4,659,163			1a,b,c 3a
Fringe Benefits	1,000,703	1,053,576			3b
Consultancy	701,368	618,298			3c
Procurement	115,734	121,438			
Travel	143,035	169,970			3d
Accommodation/ Per diem	409,541	430,310			3e
Other Direct Costs	2,779,500	2,848,514	\$2,392		3f, B
Visibility and Communications	18,795	22,747			3g
Monitoring and Evaluation	607,097	534,001			3h
Indirect Costs	2,104,153	2,101,752	661		3i, B
Total Costs Incurred	\$12,559,770	\$12,559,769	\$3,053		
Outstanding Balance	\$0	\$0			
Cost Share ²	\$7,934,601	\$4,233,942		\$3,700,659	A
Total Questioned Cost		\$3,703,712			A,B

¹ The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

² Total Costs Incurred, including Cost Share for the life of this project is provided in Appendix C.

Aga Khan Foundation USA
Notes to the Special Purpose Financial Statement³

Note 1 - Summary of Significant Accounting Policies

a. Basis of Presentation

The accompanying Schedule of Costs Incurred includes costs incurred under Multi Input Area Development Global Development Alliance (MIAD GDA), Collaborative Agreement Number AID-306-A-13-00002 project for costs incurred during the periods January 1, 2016 to June 15, 2018 with Aga Khan Foundation USA. Because the Statement presents only a selected portion of the operations of Aga Khan Foundation USA, it is not intended to and does not present the Balance Sheet, Statement of Net Income, or Cash Flows of Aga Khan Foundation USA. The information in this Special Purpose Financial Statement is presented in accordance with the requirements specified by the US Agency for International Development - Afghanistan and is specific to Collaborative Agreement Number AID-306-A-13-00002. Therefore, some amounts presented in this Special Purpose Financial Statement may differ from amounts presented in, or used in the preparation of, Aga Khan Foundation USA Balance Sheet, Statement of Net Income, or Cash Flows.

We noticed some insignificant budget vs. actual variances in a number of cost categories. The true reflection of variances would be accurately captured by reviewing the overall life-time of the project. The above information presents only a portion of the project life; from Jan 1, 2016 to June 15, 2018. In addition, AKF has consistently provided quarterly variance explanations as part of the quarterly business status reports.

b. Basis of Accounting

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

c. Foreign Currency Conversion Method

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

- Revenues – recorded in U.S. Dollars
- U.S. Expenditures – recorded in U.S. Dollars
- Afghanistan Expenditures – recorded in U.S. Dollars

Average exchange rate for the period under audit:

- U.S. Dollar = 68.407 Afghani (Central Bank of Afghanistan)

³ The Notes to the Special Purpose Financial Statement are the responsibility of AKF's management.

Note 2 - Revenues

Revenues are recognized when earned and properly invoiced to USAID.

Note 3 - Major Cost Categories

Below are the major categories of costs expended under the contract that are included within the budget lines on the SPFS.

a. Personnel

Includes costs for personnel responsible for technical, financial, and operational oversight of MIAD GDA based at AKF, AKF Afghanistan, and the University of Central Asia (UCA).

b. Fringe Benefits

Fringe Benefits for AKF are calculated at 25% and includes medical, dental and vision insurance, 401(k) retirement savings plan, life insurance, Social Security and Medicare (FICA) costs.

Fringe Benefits for AKF-Afghanistan are calculated at 20% of Local Staff and include but are not limited to insurance, home leave travels, relocation and settling in allowances, medical allowances, and pension, housing and food allowances.

Fringe Benefits for AKF-Afghanistan are calculated at 30% for Expatriate Staff and include but are not limited to insurance, home leave travels, relocation and settling in allowances, medical allowances, pension, housing and food allowances.

Fringe benefits for UCA staff are calculated at 21% and include medical allowance, pension, housing, social security, and other allowances.

c. Consultancy

Includes costs for contracting external individuals and organizations to implement the project's monitoring, evaluation, research, and learning (MERL) agenda, conduct legal research and investment structuring for the project's investment component and trust mechanism, and provide technical assistance on other project-related activities as needed.

d. Travel

Represents both international and domestic travel to and within Afghanistan to support MIAD GDA inception/closeout, facilitate annual planning processes, monitor technical and financial progress, conduct Steering Committee meetings, and assist in monitoring, evaluation, research, and learning related activities, among other responsibilities.

e. Accommodation/Per Diems

Includes accommodation, meals, and incidental expenses for international and domestic traveling staff.

f. Other Direct Costs

Includes costs associated with direct implementation of project activities in addition to office expenses and running costs.

g. Visibility and Communications

Includes costs for implementing USAID Branding Strategy and Marking Plan, plus other communications events/visibility.

h. Monitoring and Evaluation

Includes costs for monitoring and evaluation activities including baseline and end line studies and additional Level 1 MERL studies as well as other routine and special monitoring and evaluation activities.

i. Indirect Costs

AKF's final NICRA for 2016 is 25.9% and 27.65% provisional for 2017. The approved NICRA under the original MIAD GDA agreement was 31.07%. AKF USA has consistently over the years recovered NICRA at the annual rate, which was conservative and lower than what was originally approved.

Aga Khan Foundation USA
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement⁴

Note A: Questioned Costs – Cost Share Requirement not Met

Finding 2019-01 questioned \$3,700,659 in costs as the total contributed cost share provided by AKF was not supported based on prior audit results and contributions during the current audit period, which were combined to cover the entire period of performance.

Note B: Questioned Costs – Failure to Document Sole Source Procurement Justification

Finding 2019-02 questioned \$3,053 in costs as AKF was unable to provide documentation to support the reasonableness of its contract for insurance services that was issued on a noncompetitive basis. The identified ineligible costs were charged to other direct costs (\$2,391.43) and allocated indirect costs (\$661.23) for the collaborative agreement during the audited period of performance.

⁴ Alphabetic notes to the questioned costs 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
Aga Khan Foundation USA
1825 K Street NW, Suite 901
Washington, DC 20006

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

We have audited the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Aga Khan Foundation USA (AKF), under the United States Agency for International Development (USAID) collaborative agreement number AID-306-A-13-00002 for the period January 1, 2016 through June 15, 2018. We have issued our report thereon dated May 29, 2019 with a qualified opinion.

Internal Control Over Financial Reporting

In planning and performing our audit of the Statement, we considered AKF's internal control over financial reporting (internal control) 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 AKF's internal control. Accordingly, we do not express an opinion on the effectiveness of AKF'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 AKF's Statement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first 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 did identify one significant deficiency in internal control that is included as Finding 2019-02. This finding is detailed in the Schedule of Findings and Questioned Costs.

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 AKF's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering AKF's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of AKF, USAID, and 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.

Williams, Adley & Company-DC, LLP
Washington, D.C.
May 29, 2019



Independent Auditor's Report on Compliance

Board of Directors
Aga Khan Foundation USA
1825 K Street NW, Suite 901
Washington, DC 20006

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

We have audited the Special Purpose Financial Statement ("Statement") and related notes to the Statement, 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, by Aga Khan Foundation USA (AKF), under the United States Agency for International Development (USAID) collaborative agreement number AID-306-A-13-00002 for the period January 1, 2016 through June 15, 2018. We have issued our report thereon dated May 29, 2019 with a qualified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether AKF's Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, collaborative agreements and grant agreements, 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed three instances of noncompliance per findings 2019-01, 2019-02 and 2019-03, of which we consider finding 2019-01 to be material noncompliance. These findings are reported in the Schedule of Findings and Questioned Costs, which is 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 AKF's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing*

Standards in considering AKF's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of AKF, USAID and 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.

Williams, Adley & Company-DC, LLP
Washington, D.C.
May 29, 2019

Schedule of Findings and Questioned Costs

Finding 2019-01: Cost Share Requirement Not Met

Nature of Finding: Material Noncompliance

Condition: The Aga Khan Foundation USA (AKF) did not meet its cost share requirement between January 1, 2016 and June 15, 2018. We determined the required cost share during this period was \$7,934,601 and we confirmed the cost share provided was \$4,233,942, which resulted in a cost share shortfall of \$3,700,659 as presented in the table below.

(a) Total Required Cost Share	(b) Audited Cost Share as of 12/31/2015	(c) Cost Share Balance (a) – (b)	(d) Confirmed Cost share 1/1/2016 to 6/15/2018	Unmet Cost Share (c) – (d)
\$42,745,931	\$34,811,330	\$7,934,601	\$4,233,942	\$3,700,659

Criteria: AKF's award number AID-306-A-13-00002, modification 8, which was executed on January 30, 2016, under Articles of the Agreement, Article VI.B reads as follows, "As per the provision entitled "Cost Sharing (Matching) (February 2012)" and ADS 303.3.10, if at the end of any funding period, the recipient has expended an amount of non-Federal funds less than the agreed upon amount or percentage of total expenditures, the Agreement Officer may apply the difference to reduce the amount of USAID incremental funding in the following funding period. If the award has expired or has been terminated, the Agreement Officer may require the recipient to refund the difference to USAID." The same language was included in modification 12, executed on November 15, 2017.

Cause: AKF asserted that the cost share was met and reported quarterly to USAID. The cost share AKF reported to USAID was \$3,976,657 more than the amount presented in the audit report for the period as of December 31, 2015. However, AKF did not identify this difference at the time the prior audit report was issued and only raised it when we announced that AKF had not met its cost share for the current period. Because AKF was responsible for the cost share amount contained in the signed audit report, we accepted the audit report figure as the valid amount and used it to calculate the cost share outstanding balance for the period we audited. We determined that AKF did not have a process in place to assign responsibility for ensuring its cost share was captured and reported accurately, consistently and timely.

Effect: AKF was not in compliance with cost share requirements as stipulated in the USAID agreement. Further, when material cost share support is not met it places US Government funds at greater risk of fraud, waste, and abuse.

Questioned Costs: We questioned \$3,700,659 in cost share that was not met.

Recommendation: We recommend that AKF:

1. Provide documentation to USAID that supports its position that its cost share requirement was met, or refund USAID the \$3,700,659 in cost share that we determined AKF did not meet prior to close out of the program.
2. Make improvements to its reporting regimen by assigning responsibility for capturing, reviewing and communicating cost share amounts consistently across all reporting mechanisms, including audit reports, status reports and other required communications relating to project performance and compliance.

Finding 2019-02: Failure to Document Sole Source Procurement Justification

Nature of Finding: Significant Deficiency in Internal Control and Non-Compliance

Condition: During our testing of 50 disbursement samples valued at \$807,211, we were unable to verify proper bidding documentation for 2 samples wherein the contractor provided insurance services to the Aga Khan Foundation USA (AKF). Upon requesting bidding documentation for this vendor, we noted that AKF did not follow proper open competition for this vendor and procured the goods via a sole source award. AKF did not obtain USAID formal approval for the sole source procurement.

Criteria: 2 CFR, §200.319, Competition, requires that “[a]ll procurement transactions must be conducted in a manner providing full and open competition...”

2 CFR, §200.318 (i), General procurement standards, further requires recipients to “maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.” Under §200.333, Retention requirements for records, financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient.

Moreover, AKF’s procurement policy states “For purchase value from US \$201 up to \$49,999.99 or its equivalent, three or more written quotations must be obtained by a purchase committee or their representatives”.

“In case there are only one or two traders available or should to be purchased directly from authorized distributor or manufacturer, the purchasing committee must write the justification as request for procedure waive, justifying purchasing based on two quotations or purchase from single source on justification form. Justification should be approved by the relevant approving authority.”

Cause: AKF initially contracted with the insurance provider in 2007 and did not go through the usual procurement process when contracting with the same provider for the period we audited. Additionally, AKF did not deem it necessary to maintain documentation supporting sole source justification of a vendor that they had contracted with in the past. We determined that this circumstance, in conjunction with inadequate enforcement of policies and procedures, led to AKF issuing a non-competitive award without properly documenting a justification for doing so.

Effect: AKF may have excluded potential vendors from providing the government with a better value for the insurance services due to not performing a competitive bidding process.

Questioned Costs: We determined \$2,391.43 in total ineligible questioned costs with \$661.23 in associated indirect costs.

Recommendation: We recommend that AKF:

1. Document the results of a cost or price analysis in the procurement and payment files that provides adequate support for the sole source award(s) and determination of cost reasonableness.
2. Provide training to staff to ensure their understanding of the procurement policies and procedures and ensure supervisory review of adherence to the policies and procedures to enhance enforcement thereof.
3. Reimburse USAID the \$3,053 in questioned costs that we calculated as ineligible costs.

Finding 2019-03: Failure to Comply with Debarment and Suspension Common Rule**Nature of Finding:** Noncompliance

Condition: The Aga Khan Foundation USA (AKF) did not submit a vetting information form to USAID's Vetting Support Unit (VSU) for six vendors regarding debarment, suspension, ineligibility and voluntary exclusion from Federal awards. However, the auditors verified through sam.gov and Department of the Treasury's Office of Foreign Assets Control's (OFAC's) Sanction List Search that none of the six vendors were on the excluded parties list, therefore, no associated costs are questioned.

Criteria: 2 CFR § 200.213, Direct Costs, "Non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities."

In addition, USAID's "Mission Order 201.05 Appendix A: Vetting Procedures" requires that any proposed non-U.S. recipient of an award of a USAID contract, subcontract or any instrument acting as the same in excess of \$25,000 at any tier must submit an information form to the VSU. Prime awardees are considered the vetting requestor and are considered responsible for taking reasonable steps to verify the information contained in the information form. VSU will then make a determination of eligibility or ineligibility and communicate the results to the chief of party of the program.

AKF's award number AID-306-A-13-00002 states cooperation between the Alliance Members will be governed by the Articles of Collaboration. The "Articles of Collaboration" between AKF USA, AKF Afghanistan, University of Central Asia (UCA) and the Aga Khan Fund for Economic Development (AKFED), states within Article II "Grant Letters and Disbursement of Funds" that when funds originate with USAID, those terms and conditions include USAID standard provisions and partners are required to guarantee that they will comply with USAID rules and regulations.

2 CFR § 180.200, OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (non-procurement),

"A covered transaction is a non-procurement or procurement transaction that is subject to the prohibitions of this part. It may be a transaction at— (a) The primary tier, between a Federal agency and a person (see appendix to this part); or (b) A lower tier, between a participant in a covered transaction and another person."

Per 2 CFR § 180.970,

"(a) Non-procurement transaction means any transaction, regardless of type (except procurement contracts), including, but not limited to the following: (1) Grants. (2) Collaborative agreements. (3) Scholarships. (4) Fellowships. (5) Contracts of assistance.

(6) Loans. (7) Loan guarantees. (8) Subsidies. (9) Insurances. (10) Payments for specified uses. (11) Donation agreements.”

Cause: AKF’s interpretation of USAID’s mission order was that vetting would only apply to recipients who are reimbursed in excess of the \$25,000 threshold using federal funds. USAID’s Mission Order applies to any USAID contract, subcontract or any instrument acting as the same in excess of \$25,000 even if a portion of that amount is a cost share. Thus, AKF did not consider cost share implications in its calculation of the \$25,000 threshold as required for vetting purposes and did not include such instructions in its internal procurement policy regarding the same. Further, AKF’s staff were not aware of the requirements under this agreement as the procurement policy is silent on this issue.

Effect: AKF could secure services from a party on the excluded party listing system that was suspended or debarred from participation in federal awards. This control deficiency could result in questioned costs if services are obtained from an excluded party using federal funds.

Questioned Costs: None.

Recommendation: We recommend that AKF:

1. Submit vetting requests for all USAID awards, contracts, or instruments acting as the same, in excess of \$25,000, which should include all cost share contributions as part of determining the \$25,000 threshold.
2. Update its procurement policy for checking parties that are suspended or debarred from participation in Federal awards in all required activities to include the calculation of cost share for determining if the \$25,000 threshold has been met. AKF should conduct follow-up training with the individuals responsible for the vendor verification and payment process to ensure understanding and compliance with the updated procedures and USAID vetting requirements.

Status of Prior Audit Findings

We reviewed prior audit reports, reviews and assessments relevant to AKF's activities under this audit. We identified two prior audit reports that contained six findings that could have material effect on the Special Purpose Financial Statement or other financial information significant to the audit objectives. The reports containing findings are:

1. SIGAR 17-23 Financial Audit "Department of State's Strengthening Afghan Governance and Alternative Livelihoods Program: Audit of Costs Incurred by the Aga Khan Foundation under grant number SINLEC14GR0042," issued on January 19, 2017.
2. USAID Office of Inspector General Audit Report Number F-306-17-006-N, titled "Financial Audit of Costs Incurred in Afghanistan by Aga Khan Foundation USA under Multi-Input Area Development Global Development Alliance (MIAD GDA) Collaboration Agreement No. AID-306-A-13-00002" issued on October 23, 2016.

We conducted follow-up procedures including discussion with management, reviewed evidence of corrective actions, and performed testing of similar matters during our current audit. Accordingly, we have concluded that AKF has taken adequate corrective action on three findings and three findings are still open. We determined that one finding did have a material effect on the current SPFS or other financial data significant to the audit objectives. The status of findings is summarized below:

Report: USAID Office of Inspector General Audit Report, number F-306-17-006-N, issued on October 23, 2016. Financial Audit of Costs Incurred in Afghanistan by Aga Khan Foundation USA under Multi-Input Area Development Global Development Alliance (MIAD GDA) Collaboration Agreement No. AID-306-A-13-00002 for the Period from March 23, 2013 through December 31, 2015.

Issue: *Finding Number 1 – Cash payments to Local Employees & Local Vendors (Internal Control Deficiency).* The prior audit report noted that AKF processes payments to its local employees and vendors mostly in the form of cash as opposed to using a banking channel. Several payments were noted in amounts exceeding \$10,000 while AKF's Finance SOP sets the limit at \$5,000.

Status: Our review of documentation supporting the costs incurred during the current audit revealed similar issues where AKF processed payments to several local employees and vendors in the form of cash. This condition is repeated in this audit, and therefore, remains open.

Issue: *Finding Number 2 - Incomplete Procurement Records for Consultant Services (Material Non-Compliance).* This finding revolved around incomplete procurement records for consultant services. AKF USA announced the work without receiving 3

competitive bids to exercise free and open competition nor did they provide sole source justification for these procurements.

Status: We tested subcontracts for appropriate procurement documentation to support subawards. We noted that AKF was not able to produce sole source justification for one of its vendors. We determined that this condition is repeated in this audit.

Report: SIGAR 17-23 Financial Audit, issued on January 19, 2017. Department of State's Strengthening Afghan Governance and Alternative Livelihoods Program: Audit of Costs Incurred by the Aga Khan Foundation under grant number SINLEC14GR0042 for the period from July 21, 2014 through January 20, 2016.

Issue: *Finding 2016-01 – Cost Share Requirement Not Met (Material Weakness and Noncompliance).* The external auditor identified issues with provisions of the contract as they relate to cost-share requirements. The finding stated that AKF failed to meet the cost share requirements as per the terms of the contract, which in turn led to a questioned cost in the amount of \$928,370.

Status: We reviewed documentation that supported corrective actions were taken concerning this issue. We noted that the State Department requested SIGAR to allow the inclusion of \$88,666 under the SIDA-SPEDA agreement as part of the cost share and is awaiting SIGAR's decision on this matter. If accepted, this amount would exceed the cost share needed to meet the cost share requirement under the grant and eliminate the questioned cost. We reviewed AKF cost share requirements and tested the cost share for the period under audit. However, we could not confirm that AKF met its cumulative cost share requirement. As such, the previously noted condition is repeated in this audit.

Issue: *Finding 2016-02 – Inadequate Sub-recipient Monitoring Procedures and Classifications (Material Weakness and Non-Compliance).* The finding stated that AKF USA does not have a formal entity-wide policy or procedure document that explicitly describes the responsibilities and activities of AKF USA in monitoring its subrecipients. The finding also states that AKF did not maintain documentation related to its monitoring of subrecipients.

Status: We reviewed the Sub-partner Policy that AKF issued in March 2017. This policy document established roles and responsibilities for subaward program and financial monitoring, and for ensuring subaward agreements contain all appropriate terms and conditions for compliance with relevant federal regulations. We tested subaward expenditures and confirmed if adequate documentation to support subrecipient monitoring was in place. We determined that this finding has not been repeated.

Issue: *Finding 2016-03 – Unallowable Laundry Expense (Internal Control Deficiency and Noncompliance).* The prior audit noted unallowable expenses related to laundry which did not result in a direct benefit to the program that totaled \$25.

Status: We confirmed that AKF reimbursed USAID the \$25 in unallowed laundry expenses. We tested non-labor related expenses for eligibility and adequate support for the expenditures and we checked expense descriptions for potential unallowable costs. We determined that this condition is not repeated in this audit.

Issue: *Finding 2016-04 – Foreign Currency Translation Process Misaligned with GAAP (Significant Deficiency).* The external auditor noted that AKF Standard Operation Procedures (SOPs), Finance Section - indicated that translations are made based on an average of the buying and selling rate at the beginning of the month in which the transaction arises. This approach is inconsistent with the provisions of Accounting Standards Codification 830, which requires translations to occur using the rate of exchange in effect on the date that the transaction is recorded in accordance with generally accepted accounting principles. Alternatively, an average rate may be used that encompasses the accounting period during which the costs were incurred. The guidance does not, however, expressly permit the use of an average rate computed prior to the date that a cost was incurred.

Status: The State Department requested that AKF submit a copy of its revised SOPs once completed that comply with Accounting Standards Codification 830. Williams Adley reviewed AKF's SOPs as they pertain to foreign currency translations and noted that AKF revised its Standard Operating Procedures Finance Section in March 2019 to align with generally accepted accounting principles (GAAP) as well as Accounting Standards Codification 830 provisions. We determined that this condition is not repeated in this audit.

Appendix A – Management's Response to the Findings and Recommendations

AGA KHAN FOUNDATION U.S.A.

August 26, 2019

Jocelyn Hill, CPA, Partner
Williams, Adley & Company-DC, LLP
1030 15th Street, NW, Suite 350 West
Washington DC, 20005

Subject: Aga Khan Foundation management response to the draft Special Purpose Financial Statement Audit Report F-147 regarding the Multi-Input Area Development Global Development Alliance project funded by Collaboration Agreement number AID-306-A-13-00002, for the period January 1, 2016 through June 15, 2018.

Dear Ms. Hill,

This correspondence is in response to the draft August 9, 2019 Special Purpose Financial Statement Audit Report F-147 provided to Aga Khan Foundation (AKF) on August 12. Thank you for providing Williams, Adley & Company-DC, LLP (Williams Adley) findings for Collaboration Agreement number AID-306-A-13-00002, the Multi-Input Area Development Global Development Alliance (MIAD GDA) project. Below please find AKF's management response to the Schedule of Findings and Questioned Costs as well as the Status of Prior Audit Findings and Recommendations. We appreciate your firm's consideration of these responses in advance. If you have any questions on the details provided, please do not hesitate to contact me.

Sincerely,

[Redacted signature block]

Schedule of Findings and Questioned Costs***Finding 2019-01: Cost Share Requirement Not Met******Nature of Finding: Material Noncompliance******Questioned Costs: We questioned \$3,700,659 in cost share that was not met.******Recommendation: We recommend that AKF:***

1. *Provide documentation to USAID that supports its position that its cost share requirement was met, or refund USAID the \$3,700,659 in cost share that we determined AKF did not meet prior to close out of the program.*
2. *Make improvements to its reporting regimen by assigning responsibility for capturing, reviewing and communicating cost share amounts consistently across all reporting mechanisms, including audit reports, status reports and other required communications relating to project performance and compliance.*

AKF Response:

1. AKF acknowledges that \$3,700,659 of its required cost share was not presented in the prior audit report numbered F-306-17-006-N for USAID's Office of Inspector General authored by Davis & Associates Certified Public Accounts (Davis & Associates) and reviewed by both AKF and USAID-Afghanistan. However, AKF did expend \$3,976,657 of cost share between the audit's review period of March 23, 2013 and December 31, 2015, and reported this amount to USAID via accurate, consistent, and timely quarterly business status reports. Additionally, on an annual basis and in accordance with Government Auditing Standards and the U.S. Government's Uniform Guidance, AKF's expenditures under federal awards including both federal and cost share expenditures are tested for financial compliance including allow-ability of funds. In accordance with these requirements, MIAD GDA's federal and cost share expenditures were tested annually throughout the project's performance period with no findings reported.

While not captured in the final audit report, Davis & Associates did test cost share expenditures during their audit. With this in mind, AKF submits that failure to capture the \$3,976,657 of cost share expenses incurred within the audit report is an oversight shared by AKF, Davis & Associates, and USAID-Afghanistan rather than an instance of AKF's material noncompliance.

AKF also agrees to provide USAID documentation that supports its cost share requirement of \$3,700,659 was not only met, but exceeded, and will share relevant quarterly business status reports and general ledger of accounts. If USAID requires further documentation to confirm this cost share expenditure, AKF suggests an additional third-party audit of MIAD GDA be conducted with the specific scope of testing \$3,976,657 of cost share expenditures incurred between March 23, 2013 and December 31, 2015.

2. AKF acknowledges this recommendation and agrees to improve its cost share reporting regime across all reporting mechanisms for current and future federal awards.

Finding 2019-02: Failure to Document Sole Source Procurement Justification***Nature of Finding: Significant Deficiency in Internal Control and Non-Compliance******Questioned Costs: We determined \$2,391.43 in total ineligible questioned costs with \$661.23 in associated indirect costs.******Recommendation: We recommend that AKF:***

1. *Document the results of a cost or price analysis in the procurement and payment files that provides adequate support for the sole source award(s) and determination of cost reasonableness.*

2. *Provide training to staff to ensure their understanding of the procurement policies and procedures and ensure supervisory review of adherence to the policies and procedures to enhance enforcement thereof.*
3. *Reimburse USAID the \$3,053 in questioned costs that we calculated as ineligible costs.*

AKF Response:

1. AKF acknowledges it failed to properly document one sole source procurement for insurance services in Afghanistan that was initially entered into in 2006 and later expensed to MIAD GDA during the period under review for this financial audit. The justification for the sole source procurement was that the insurance provider in question, Jubilee Insurance Company, was the only insurance provider in Afghanistan in 2006. However, AKF failed to keep proper bidding documentation for these services when first contracted and, as a result, was unable to provide evidence of sole source justification to Williams Adley.

While acknowledging this non-compliance, AKF would like to clarify that it currently has strong procurement and filing systems in place and commits to re-assessing the Afghan insurance services market and awarding contracts on a competitive basis with proper documentation in line with its procurement policies moving forward.

2. AKF acknowledges the recommendation to provide training to staff to ensure understanding of procurement policies and procedures and ensure supervisory review of adherence to policies and procedures to enhance enforcement thereof and commits to conducting this training.
3. AKF acknowledges this recommendation and agrees to reimburse USAID \$3,053 of questioned costs.

Finding 2019-03: Failure to Comply with Debarment and Suspension Common Rule

Nature of Finding: Noncompliance

Questioned Costs: None.

Recommendation: We recommend that AKF:

1. *Submit vetting requests for all USAID awards, contracts, or instruments acting as the same, in excess of \$25,000, which should include all cost share contributions as part of determining the \$25,000 threshold.*
2. *Update its procurement policy for checking parties that are suspended or debarred from participation in Federal awards in all required activities to include the calculation of cost share for determining if the \$25,000 threshold has been met. AKF should conduct follow-up training with the individuals responsible for the vendor verification and payment process to ensure understanding and compliance with the updated procedures and USAID vetting requirements.*

AKF Response:

1. Throughout MIAD GDA's implementation, AKF was diligent to adhere to USAID partner vetting requirements for any proposed non-U.S. recipients of awards, contracts, or instruments receiving an excess of \$25,000 of federal funding. Mission Order 201.06 regarding National Security Screening (Non-U.S. Party Vetting) signed June 7, 2015 by USAID-Afghanistan's Mission Director states that, "Any proposed non-U.S. recipient of an Award of a USAID contract, subcontract, or any instrument acting as the same in excess of \$25,000 at any tier" is subject to

partner vetting. However, the Mission Order does not clearly stipulate that any proposed non-U.S. recipients of awards, contracts, or instruments entered into with multiple sources of funding including, but not limited to, USAID funding require partner vetting if the value of the award, contract, or instrument exceeds \$25,000. As such, it can be interpreted that partner vetting is only required if recipients are reimbursed in excess of the \$25,000 threshold using federal funds. In good faith, AKF provided multiple trainings to its staff on USAID partner vetting requirements throughout the life of MIAD GDA to ensure these requirements were met for any non-U.S. recipients that would be reimbursed in excess of the \$25,000 federal threshold.

While AKF maintains its Mission Order interpretation as valid, it also acknowledges Williams Adley's interpretation that partner vetting is required for all non-U.S. recipients of USAID awards, contracts or instruments acting as the same, in excess of \$25,000, which include all cost share contributions under the award as part of determining the \$25,000 threshold. To ensure clarity on partner vetting requirements moving forward, AKF voluntarily agrees to submit partner vetting requests for all non-U.S. recipients of awards, contracts or instruments acting as the same, in excess of \$25,000, when USAID funds will be utilized all or in part to reimburse the recipient. AKF voluntarily agrees to undertake this approach even though it maintains its Mission Order interpretation is valid.

2. AKF acknowledges the recommendation to update its procurement policy for checking parties that are suspended or debarred from participation in federal awards in all required activities. When USAID funds will be utilized all or in part to reimburse any non-U.S. recipient of awards, contracts, or instruments acting as the same, AKF agrees to include the calculation of cost share for determining if the \$25,000 threshold has been met. AKF will also conduct follow-up training for relevant staff on USAID partner vetting requirements.

Status of Prior Audit Findings and Recommendations

Report: USAID Office of Inspector General Audit Report, number F-306-17-006-N, issued on October 23, 2016. Financial Audit of Costs Incurred in Afghanistan by Aga Khan Foundation USA under Multi-Input Area Development Global Development Alliance (MIAD GDA) Collaboration Agreement No. AID-306-A-13-00002 for the Period from March 23, 2013 through December 31, 2015.

Issue: Finding Number 1 – Cash payments to Local Employees & Local Vendors (Internal Control Deficiency). The prior audit report noted that AKF processes payments to its local employees and vendors mostly in the form of cash as opposed to using a banking channel. Several payments were noted in amounts exceeding \$10,000 while AKF's Finance SOP sets the limit at \$5,000.

Status: Our review of documentation supporting the costs incurred during the current audit revealed similar issues where AKF processed payments to several local employees and vendors in the form of cash. This condition is repeated in this audit, and therefore, remains open.

AKF Response:

As a corrective measure and immediately following this audit finding, AKF began processing employee and supplier payments including salaries through formal banking channels wherever available. In Badakhshan province, commercial banking services are only available in Faizabad city, whereas districts including Baharak, Warduj, Jurn, Khash, Kuran-e- Munjan, Zeebak, Shiva, Ishkashim, Wakhan, Sheghnan, and Darvoz where AKF has operations, commercial banking facilities are not available. However, AKF acknowledges the discrepancy between its Finance SOP on cash payments and its practices,

and commits to updating its Finance SOP to ensure practices and policies regarding cash payments under federal awards align moving forward.

***Issue:** Finding Number 2 - Incomplete Procurement Records for Consultant Services (Material Non-Compliance). This finding revolved around incomplete procurement records for consultant services. AKF USA announced the work without receiving 3 competitive bids to exercise free and open competition nor did they provide sole source justification for these procurements.*

***Status:** We tested subcontracts for appropriate procurement documentation to support subawards. We noted that AKF was not able to produce sole source justification for one of its vendors. We determined that this condition is repeated in this audit.*

AKF Response:

As a corrective measure and immediately following this audit finding, AKF improved its procurement processes to ensure adequate support documentation for sole source awards including consultant services. As stated previously, AKF acknowledges it failed to properly document one sole source procurement for insurance services in Afghanistan that was initially entered into in 2007 and later expensed to MIAD GDA during the period under review for the F-147 financial audit conducted by Williams Adley. However, AKF notes that this particular procurement occurred prior to the USAID Office of Inspector General Audit Report, number F-306-17-006-N was finalized in 2016.

While acknowledging this non-compliance, AKF would like to clarify that it currently has strong procurement and filing systems in place as evidenced by no other procurement-related findings on contracts and/or services engaged under MIAD GDA. Additionally, AKF acknowledges Williams Adley's recommendation to provide training to staff to ensure understanding of procurement policies and procedures and ensure supervisory review of adherence to policies and procedures to enhance enforcement thereof and commits to conducting this training.

***Report:** SIGAR 17-23 Financial Audit, issued on January 19, 2017. Department of State's Strengthening Afghan Governance and Alternative Livelihoods Program: Audit of Costs Incurred by the Aga Khan Foundation under grant number SINLEC14GR0042 for the period from July 21, 2014 through January 20, 2016.*

***Issue:** Finding 2016-01 – Cost Share Requirement Not Met (Material Weakness and Noncompliance). The external auditor identified issues with provisions of the contract as they relate to cost-share requirements. The finding stated that AKF failed to meet the cost share requirements as per the terms of the contract, which in turn led to a questioned cost in the amount of \$928,370.*

***Status:** We reviewed documentation that supported corrective actions were taken concerning this issue. We noted that the State Department requested SIGAR to allow the inclusion of \$88,666 under the SIDA-SPEDA agreement as part of the cost share and is awaiting SIGAR's decision on this matter. If accepted, this amount would exceed the cost share needed to meet the cost share requirement under the grant and eliminate the questioned cost. We reviewed AKF cost share requirements and tested the cost share for the period under audit. However, we could not confirm that AKF met its cumulative cost share requirement. As such, the previously noted condition is repeated in this audit.*

AKF Response:

On May 10, 2017, AKF received email correspondence from the State Department indicating that SIGAR had accepted their recommendation to include \$88,666 under the SIDA-SPEDA agreement as part of AKF's

cost share requirement under the Strengthening Afghan Governance and Alternative Livelihoods (SAGAL) project and SIGAR considered this particular audit finding now closed. Given this, AKF requests that SIGAR update its January 19, 2017 SIGAR-17-23-FA published report to reflect this acceptance. Additionally, AKF requests Williams Adley update its status for Finding 2016-01 to indicate that the SAGAL cost share issue has been resolved.

***Issue:** Finding 2016-02 – Inadequate Sub-recipient Monitoring Procedures and Classifications (Material Weakness and Non-Compliance). The finding stated that AKF USA does not have a formal entity-wide policy or procedure document that explicitly describes the responsibilities and activities of AKF USA in monitoring its subrecipients. The finding also states that AKF did not maintain documentation related to its monitoring of subrecipients.*

***Status:** We reviewed the Sub-partner Policy that AKF issued in March 2017. This policy document established roles and responsibilities for subaward program and financial monitoring, and for ensuring subaward agreements contain all appropriate terms and conditions for compliance with relevant federal regulations. We tested subaward expenditures and confirmed if adequate documentation to support subrecipient monitoring was in place. We determined that this finding has not been repeated.*

AKF Response:

AKF acknowledges and agrees with Williams Adley's determination.

***Issue:** Finding 2016-03 – Unallowable Laundry Expense (Internal Control Deficiency and Noncompliance). The prior audit noted unallowable expenses related to laundry which did not result in a direct benefit to the program that totaled \$25.*

***Status:** We confirmed that AKF reimbursed USAID the \$25 in unallowed laundry expenses. We tested non-labor related expenses for eligibility and adequate support for the expenditures and we checked expense descriptions for potential unallowable costs. We determined that this condition is not repeated in this audit.*

AKF Response:

AKF acknowledges and agrees with Williams Adley's determination.

***Issue:** Finding 2016-04 – Foreign Currency Translation Process Misaligned with GAAP (Significant Deficiency). The external auditor noted that AKF Standard Operation Procedures (SOPs), Finance Section - indicated that translations are made based on an average of the buying and selling rate at the beginning of the month in which the transaction arises. This approach is inconsistent with the provisions of Accounting Standards Codification 830, which requires translations to occur using the rate of exchange in effect on the date that the transaction is recorded in accordance with generally accepted accounting principles. Alternatively, an average rate may be used that encompasses the accounting period during which the costs were incurred. The guidance does not, however, expressly permit the use of an average rate computed prior to the date that a cost was incurred.*

***Status:** The State Department requested that AKF submit a copy of its revised SOPs once completed that comply with Accounting Standards Codification 830. Williams Adley reviewed AKF's SOPs as they pertain to foreign currency translations and noted that AKF revised its Standard Operating Procedures Finance Section in March 2019 to align with generally accepted accounting principles (GAAP) as well as Accounting Standards Codification 830 provisions. We determined that this condition is not repeated in this audit.*

AKF Response:

AKF acknowledges and agrees with Williams Adley's determination.

Appendix B – Auditor’s Response to Management Comments

Williams Adley & Company-DC, LLP (Williams Adley) has reviewed Aga Khan Foundation’s (AKF’s) management response to the audit findings. In consideration of management views, we have included the following rebuttal to certain matters presented by AKF. A rebuttal has been included in those instances where management disagreed with the facts presented in the finding or otherwise did not concur with our recommendations. AKF disagrees with the questioned cost per Finding 2019-01 and the interpretation of funds to be included in the \$25,000 threshold for vetting submissions per Finding 2019-03. Williams Adley’s response to AKF management comments is as follows:

Finding 2019-01: Cost Share Requirement not Met

Management acknowledged that a cost share of \$3,700,659 was not included in a prior audit report for the period in which AKF claims the cost share was incurred. However, management asserts that the prior auditor did test cost share expenditures and that the exclusion of the cost share amount in the audit report was an oversight. AKF further explains that \$3,976,657 of cost share between March 23, 2013 and December 31, 2015 was reported to USAID via accurate, consistent, and timely quarterly business status reports, which exceeds the cost share shortage reported in the finding. Additionally, AKF stated that expenditures under federal awards, including both federal and cost share expenditures, are tested for financial compliance including allowability of funds. For these reasons AKF contends the cost share should be allowed.

While Williams Adley acknowledges AKF’s response to the finding, no additional audit evidence was provided by AKF to modify or remove the finding. Therefore, the finding and recommendation remain as presented.

Finding 2019-03: Failure to Comply with Debarment and Suspension Common Rule

Management asserts that AKF was diligent in adhering to USAID partner vetting requirements for proposed non-U.S. recipients of awards, contracts, or instruments receiving an excess of \$25,000 of federal funding. Management also explains that its interpretation of Mission Order 201.05 regarding National Security Screening (Non-U.S. Party Vetting) is that the Order does not clearly require partner vetting if the value of the award, contract, or instrument exceeds \$25,000 when non-federal amounts are included. Nonetheless, management agreed to the recommendation associated with the finding.

Williams Adley understands management’s position regarding the Mission Order not clearly stipulating the inclusion of non-federal dollars for determining the \$25,000 threshold for vetting submissions. However, the basis for the finding is found under federal regulations per 2 CFR § 180.970 wherein transactions that must be considered for the \$25,000 excluded parties threshold include “donation agreements.” For these reasons, the finding and recommendation remain as presented.

Appendix C – Life of Project Summary

Period Audited	3/23/2013 to 12/31/2015 ⁵	1/01/2016 to 6/15/2018	Totals
Revenues⁶			
USAID Award	\$ 8,885,496	\$12,559,769	\$21,445,265
Cost Share Commitment	34,811,330	7,934,601	42,745,931
Total Revenues	\$43,696,826	\$20,494,370	\$64,191,196
Costs Incurred			
Personnel	\$2,933,178	\$4,659,163	\$ 7,592,341
Fringe Benefits	790,741	1,053,576	1,844,317
Consultancy	233,599	618,298	851,897
Procurement	75,304	121,438	196,742
Travel	165,686	169,970	335,656
Accommodation/ Per diem	400,001	430,310	830,311
Other Direct Costs	2,335,315	2,848,514	5,183,829
Visibility and Communications	573	22,747	23,320
Monitoring and Evaluation	327,402	534,001	861,403
Indirect Costs	1,623,697	2,101,752	3,725,449
Total Costs Incurred	\$8,885,496	\$12,559,769	\$21,445,265
Cost Share	34,811,330	4,233,942	39,045,272
Total Costs incl. Cost Share	\$43,696,826	\$16,793,711	\$60,490,537
Remaining Balance	\$0	\$3,700,659	\$3,700,659

⁵ Based on USAID OIG Audit Report number F-306-17-006-N, issued on October 26, 2016

⁶ Based on USAID Award AID-306-A-13-00002, and modifications 12 and 14

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- 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.

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