SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 21-07 Financial Audit

Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by the Mine Detection Dog Center

NOVEMBER 2020

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 1, 2013, the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PMWRA) awarded the Mine Detection Dog Center a series of three grants to clear land mines throughout Afghanistan. The grants' goal was to conduct community-based demining activities to allow internally displaced Afghans to return to their hometowns. The initial grant was for $1 million. State modified the first two grants 12 times, but did not modify the third. The cumulative value of the three grants was $5,259,325, and the period of performance extended from April 1, 2013, to September 26, 2018.

SIGAR's financial audit, performed by Williams, Adley & Co.-DC LLP (Williams Adley) reviewed $5,259,325 in costs charged to the grants from April 1, 2013, through September 26, 2018. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in the center's internal controls related to the grants; (2) identify and report on instances of material noncompliance with the terms of the grants, and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether the center has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of the center'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, auditing standards require SIGAR to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances in which Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

NOVEMBER 2020

Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by the Mine Detection Dog Center

SIGAR 21-07-FA

WHAT SIGAR FOUND

Williams Adley identified three material weaknesses in internal controls, two significant deficiencies in internal controls, four internal control deficiencies, and seven instances of noncompliance with the terms of the grant and applicable laws and regulations. In one material weakness in internal control and noncompliance, the auditors found that the center transferred funds between line items that exceeded the allowable thresholds without the grant officer's approval. For example, the grant's budget provided $362,112 in fringe benefits, but the center charged $621,297—an increase of almost 72 percent.

Because of the deficiencies in internal controls and instances of noncompliance, Williams Adley identified $399,249 in total questioned costs, consisting of $52,167 in unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and $347,082 ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Payroll	$0	$317	$317
Meals	$312	$0	$312
Nonlabor Costs	$0	$46,561	$46,561
De Minimis Rate	$71,781	$0	$71,781
Unapproved Transfer	$274,913	$0	$274,913
Indirect Costs	$76	$5,289	$5,365
Total Costs	**$347,082**	**$52,167**	**$399,249**

Williams Adley found one prior audit report that was relevant to the center's activities under the grants. The audit had seven findings that could have a material effect on the center's SPFS. Williams Adley conducted follow-up procedures and concluded that the center had taken action on three of the findings, but not on the other four.

Williams Adley issued a qualified opinion on the center's SPFS, because it concluded that the $399,249 in questioned costs were material.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, $399,249 in questioned costs identified in the report.**
2. **Advise the center to address the report's nine internal control findings.**
3. **Advise the center to address the report's seven noncompliance findings.**

SIGAR | Office of the Special Inspector General for Afghanistan Reconstruction

November 6, 2020

The Honorable Michael R. Pompeo
Secretary of State

The Honorable R. Clarke Cooper
Assistant Secretary for Bureau of Political-Military Affairs

The Honorable Ross Wilson
U.S. Chargé d'Affaires to Afghanistan

We contracted with Williams, Adley & Co.-DC LLP (Williams Adley) to audit the costs incurred by the Mine Detection Dog Center under three grants from the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement.[1] The grants' goal was to conduct community-based demining activities to allow internally displaced Afghans to return to their hometowns. Williams Adley reviewed $5,259,325 in costs charged to the grants from April 1, 2013, through September 26, 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 grant officer at the Department of State:

1. **Determine the allowability of and recover, as appropriate, $399,249 in questioned costs identified in the report.**
2. **Advise the center to address the report's nine internal control findings.**
3. **Advise the center to address the report's seven 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 center's Special Purpose Financial Statement. We also express no opinion on the effectiveness of center's internal controls or compliance with the grants, laws, and regulations. Williams Adley is responsible for the attached audit 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.

Please provide documentation related to corrective actions taken and/or target dates for completion for the recommendations. Please provide this information to sigar.pentagon.audits.mbx.recommendation-follow-up@mail.mil within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-164)

[1] The grant numbers are S-PMWRA-13-GR-1011, S-PMWRA-15-GR-1064, and S-PMWRA-17-GR-1049.

OFFICE OF THE
SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN RECONSTRUCTION

Audit F-164

Financial Audit of Costs Incurred
Under Grant Numbers:

S-PMWRA-13-GR-1011
S-PMWRA-15-GR-1064
S-PMWRA-17-GR-1049

By

MINE DETECTION DOG CENTER

For the Period

April 1, 2013 - September 26, 2018

Submitted by

WILLIAMS ADLEY

Table of Contents

WILLIAMS ADLEY

Transmittal Letter

August 31, 2020

President and Chief Executive Officer and Board of Managers
Mine Detection Dog Center
Street 14
Kabul, Afghanistan

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 the Mine Detection Dog Center (MDC) grant numbers S-PMWRA-13-GR-1011, S-PMWRA-15-GR-1064, and S-PMWRA-17-GR-1049 with the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PMWRA) programs.

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 (SPFS), 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 MDC and SIGAR, in writing and orally, throughout the audit. MDC'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 MDC grants.

Sincerely,

Jocelyn Hill

Jocelyn Hill, CPA, CGFM
Partner

WILLIAMS, ADLEY & COMPANY-DC, LLP
Certified Public Accountants / Management Consultants
1030 15th Street, N.W., Suite 350 West • Washington, DC 20005 • (202) 371-1397 • Fax: (202) 371-9161
www.williamsadley.com

Summary

Background

MDC is a non-governmental organization in Kabul, Afghanistan established in 1989. Since its founding MDC has implemented numerous demining projects that have resulted in over 310 million square meters of cleared minefields and battlefields. MDC uses manual demining teams, explosive ordinance disposal teams, mechanical demining units and explosive detection dogs. The mission of MDC is to make Afghanistan free of mines. Beginning on April 1, 2013, the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PMWRA) awarded MDC a series of three grants for the clearing of landmines. Under the grants, MDC was to provide community-based demining activities in Afghanistan by mapping and clearing landmines across the country.

Table 1: MDC Grants with Modifications

Award Number	Date Issued	Amount	Purpose
S-PMWRA-13-GR-1011[1]	4/17/2013*	$1,000,000	Hilmand Province-Nawzad and Sangin Districts CB De-mining Project – Afghanistan. Funding established was $250,000.
Period of Performance: April 1, 2013 to March 31, 2017			
Modification 1	9/26/2013		Incremental funding to add $750,000. Total grant amount remains the same.
Modification 2	8/8/2014		No cost amendment extending the period of performance to August 31, 2014.
Modification 3	9/22/2014	$166,000	Modification increased award amount to $1,166,000. Although not stated in purpose, period of performance was changed to September 30, 2014.
Modification 4[2]	2/2/2015	$750,000	Modification increased the total award amount to $1,916,000 and extends period of performance to September 30, 2015.
Modification 5	9/22/2015	$84,000	Modification increased the total award amount to $2,000,000 and extends period of performance to December 31, 2015.
Modification 6	1/27/2016	984,000	Modification increased the total award amount to $2,984,000 and extends period of performance to December 31, 2016.
Modification 7	11/28/2016		No cost amendment extending the period of performance to March 15, 2017.
Modification 8	3/6/2017		No cost amendment extending the period of performance to March 31, 2017.
Modification 9	3/14/2018	($146,725)	Grant closed out with deobligation of $146,725. It states prior costs were $2,984,000 and the period of performance was through 3/31/2017.
S-PMWRA-15-GR-1064	8/19/2015*	$1,832,049	Grant to support Humanitarian Demining and Explosive ordnance Disposal programs in Afghanistan for Project Four (4) Panjshir
Period of Performance: August 18, 2015 through December 14, 2016			
Modification 1	8/10/2016		No cost amendment extending period of performance to September 30, 2016
Modification 2			No cost amendment extending period of performance to December 14, 2016
Modification 3	9/10/2017	($0.15)	Grant closed out with de-obligation of $0.15.
S-PMWRA-17-GR-1049	9/27/2017	$590,000	Funds to support "Community-based Demining in Nangarhar Province, Afghanistan.
Period of Performance: September 27, 2017 through September 26, 2018			

**Pre-Award costs were allowable for these grant awards*

[1] Grant number S-PMWRA-13-GR-1011 was awarded on 4/17/2013 and required MDC to comply with regulations 2 CFR 215 (OMB Circular A-110) and 2 CFR 230 (OMB Circular A-122).

[2] Modification 4 to grant number S-PMWRA-13-GR-1011 was issued on 2/2/2015 and required that MDC begin complying with regulations 2 CFR 200 and 2 CFR 600.

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 and close-out of costs incurred by MDC under grants S-PMWRA-13-GR-1011, S-PMWRA-15-GR-1064, and S-PMWRA-17-GR-1049 and associated modifications. Our audit procedures covered $5,259,325 in total costs incurred for the period April 1, 2013 through September 26, 2018.

Objectives

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

Audit Objective 1 - Special Purpose Financial Statement

Express an opinion on whether MDC's Special Purpose Financial Statement (SPFS) for the grants 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 grants and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 - Internal Controls

Evaluate and obtain a sufficient understanding of MDC's internal controls related to the grants; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether MDC has 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 grants 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 MDC 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 U.S. Department of State (State) grants: S-PMWRA-13-GR-1011, S-PMWRA-15-GR-1064 and S-PMWRA-17-GR-1049 and related modifications executed for revenues applied to and costs incurred during the period April 1, 2013 through September 26, 2018 as reported on the SPFS. This was a close out audit for all of the grants and therefore subject to additional audit procedures. The audit was limited to those matters pertinent to the grants 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. Disbursements and Financial Reporting
v. Procurement and Inventory Management
vi. Close-out Procedures

Our audit was conducted to form an opinion on the SPFS in accordance with the SPFS presentation requirements in Note 2. 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 State 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 (GAAS), and generally accepted government auditing standards (GAGAS) 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 costs incurred under the grants is free of material misstatement. An audit includes:

- Obtaining an understanding of MDC's internal controls related to the grants, 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 SPFS.

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

For audit objective 1, we reviewed transactions for the period from April 1, 2013 to September 26, 2018 and subsequent events and information that may have a significant impact on the SPFS for the audit period. We used both statistical and non-statistical sampling techniques to select personnel, travel, equipment, supplies, construction, fringe benefits, 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 grant agreements, contracts, auditee financial progress reports, State regulations, SIGAR Afghanistan alert letters, Quarterly Report to Congress, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as made available and provided. To gain an 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 including, but not limited to: determination of allowable costs under the applicable Code of Federal Regulations (CFR)[3] and cost principles; validation of indirect cost calculations pursuant to a provisional or final negotiated indirect cost rate agreement; testing cash management to ensure funding did not exceed the program's immediate cash needs requirements and confirm excess cash has been returned to the US Government; verification of incurred cost eligibility; confirmation of equipment and real property management and disposal in accordance with an approved disposition plan; determination as to whether expenditures complied with the period of availability of the Federal funds; verification that procurement activities complied with full and open competition standards or justification for noncompetitive bids was documented when applicable, and suspension and debarment of the subcontractor or subrecipient was considered in the award decision; verification that program income is reported and accounted for separately from donor funds; and determination that financial reporting was accurate, timely and complete. In addition, we performed testing to assess and determine any potential fraud, abuse, and illegal acts. For all of the grants, we performed close-out procedures to ensure that: unobligated funds and unliquidated advances in excess of cash were returned to the U.S. Government; final program and financial reports were signed and submitted to the funding agency; and the auditee obtained an approved disposition plan.

For audit objective 4, we requested prior audit reports, reviews, and assessments pertinent to MDCs activities under the grants. We also performed independent research of publicly available information to identify and review reports. If prior audits indicated a need for corrective action to be taken by MDC, we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations.

[3] MDC grant number S-PMWRA-13-GR-1011 was awarded on 4/20/2013 and accordingly MDC was required to comply with the pre-uniform guidance 2 CFR 215 (OMB Circular A-110) and 2 CFR 230 (OMB Circular A-122). Modification 004, issued on 2/26/2015, required MDC to begin complying with the Uniform Guidance under 2 CFR 200 and 2 CFR 600. Williams Adley ensured that transactions related to grant number S-PMWRA-13-GR-1011 were assessed based on the applicable CFR stipulated for the time period in question.

Summary of Results

We issued a qualified opinion on MDC's SPFS due to $399,249 in material questioned costs with $347,082 deemed ineligible and $52,167 in costs that were unsupported. Ineligible costs are unreasonable, prohibited by the grant or applicable laws and regulations, or not related to the award. Unsupported costs are costs not supported with adequate documentation or that do not have prior approval or authorization.

As a result of our audit procedures, we identified three material weaknesses in internal control, two significant deficiencies in internal control, four internal control deficiencies, and seven instances of noncompliance with the terms and conditions of the grant awards that are required to be reported under *Government Auditing Standards*.

Table 2 Finding Classifications

Finding/ Description	Material Weakness in Internal Control	Significant Deficiency in Internal Control	Internal Control Deficiency	Non-Compliance	Ineligible	Unsupported	Total Questioned Costs
2019-01 Unsupported Allocation of Payroll Cost			✔	✔	-	$ 317	$ 317
2019-02 Incorrect Calculation of Meals and Hazardous Allowances		✔			$ 312	-	$ 312
2019-03 Failure to Withhold Employee Income Tax		✔		✔	-	-	-
2019-04 Unsupported Non-Labor Costs	✔			✔	-	$ 46,561	$ 46,561
2019-05 Failure to Submit Timely Financial Reports				✔	-	-	-
2019-06 Non-Compliance with Afghan Tax Law			✔	✔	-	-	-
2019-07 Omitted General Ledger Transaction			✔		-	-	-
2019-08 Lack of Proper Segregation of Duties Over Inventory			✔		-	-	-
2019-09 Incorrect Application of the De Minimis Rate	✔			✔	$ 71,781	-	$ 71,781
2019-10 Unapproved Transfer Among Budget Lines	✔			✔	$ 274,913	-	$ 274,913
Total Questioned Direct Costs					**$ 275,225**	**$ 46,878**	**$ 322,103**
Total Questioned Indirect Costs					**71,781**	**-**	**71,781**
Indirect Costs Related to Questioned Direct Costs					**76**	**$ 5,289**	**$ 5,365**
Total Questioned Costs					**$ 347,082**	**$ 52,167**	**$ 399,249**

The questioned costs are detailed in the Schedule of Findings and Questioned Costs.

We also considered whether the information obtained during our audit 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.

Status of Prior Audit Findings

We identified one prior SIGAR audit report and three financial statement audit reports issued by local Chartered Accountants in Kabul, Afghanistan that we assessed for purposes of determining if there were findings and corrective actions requiring follow-up.

- The report SIGAR 16-28 contained seven findings that could have a material effect on the SPFS or other financial data significant to our audit objectives. We performed testing of similar matters during our current audit and determined that MDC had either not repeated or taken corrective action on three of the findings. The remaining four findings, however, were not adequately addressed as we found similar issues during this audit.

- The three financial statement audit reports issued by local Chartered Accountants on grant numbers S-PMWRA-13-GR-1011, S-PMWRA-15-GR-1064, and S-PMWRA-17-GR-1049 included unmodified opinions and did not disclose any deficiencies that need to be reported. The audit firm that audited grant number S-PMWRA-17-GR-1049 also issued a management letter with five observations but we did not observe the same observations during our audit.

Please see the Status of Prior Audit Findings and Recommendations section for a detailed description.

Summary of Management Comments

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

MDC agrees with finding 2019-08 and describes the corrective action already taken to address the issue. MDC disagrees with finding 2019-09 and argues that indirect costs were charged to the grants based upon grant approval. MDC agrees with the remaining eight findings but did not comment on whether it intends to refund PMWRA for questioned costs noted and did not specify how it will implement corrective action in several instances.

Williams Adley did not deem it necessary to modify any of the questioned costs in the report based on our review of management’s comments.

Our rebuttal to management comments is detailed in Appendix B of this report.

Attachments

The auditor’s reports are supplemented by two attachments:

- Appendix A - Management’s Response to the Findings and Recommendations
- Appendix B - Auditor’s Response to Management Comments

WILLIAMS ADLEY

Independent Auditor's Report on the Special Purpose Financial Statement

President and Chief Executive Officer and Board of Managers
Mine Detection Dog Center
Street 14
Kabul, Afghanistan

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

We have audited the Special Purpose Financial Statement (SPFS) of Mine Detection Dog Center (MDC) for grant numbers S-PMWRA-13-GR-1011, S-PMWRA-15-GR-1064, and S-PMWRA-17-GR-1049 and the related notes to the SPFS for the period April 1, 2013 to September 26, 2018.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the SPFS 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 SPFS that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the SPFS based on conducting the audit in accordance with *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 SPFS is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SPFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the SPFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to MDC's preparation and fair presentation of the SPFS 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 MDC'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 SPFS.

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 identified $399,249 in costs that were questionable based upon our review of the underlying support for the transactions. MDC did not provide proper documentation to support charges under the grants resulting in a questioned cost of $52,167 for unsupported costs related to $317 in payroll and $46,561 in non-labor costs and associated indirect costs of $5,289. MDC charged $347,082 in ineligible costs to the grants related to incorrect calculation of indirect costs of $71,781, lack of approval to realign the budget prior to the use of funds of $274,913, and payroll hours that did not reconcile to time sheets of $312, and related indirect costs of $76. The total questioned cost amount is considered material to the Special Purpose Financial Statement.

Qualified Opinion

In our opinion, except for the effects of the $399,249 in questioned costs described in the Basis for Qualified Opinion paragraph, the SPFS referred to above presents fairly, in all material respects, the respective costs incurred, items procured by the U.S. Government and balance for the period April 1, 2013 through September 26, 2018 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2 of the SPFS.

Basis of Accounting

We draw your attention to Note 2 of the SPFS, which describes the basis of accounting. As described in Note 2 of the SPFS, the SPFS is not presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The SPFS was prepared on the modified accrual basis of accounting. Under the modified accrual basis of accounting grant revenue is recognized when received rather than when earned while expenses are recognized when incurred rather than when paid.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards,* we have also issued our reports, dated April 20, 2020, on our consideration of MDC'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 MDC, State, 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-DC, LLP

Washington, D.C.
April 20, 2020

Mine Detection Dog Center
Special Purpose Financial Statement
For the Period of April 1, 2013 to September 26, 2018

	Budget	Actual	Questioned Costs		Notes[4]
			Ineligible	Unsupported	
Revenues					
S-PMWRA-13-GR-1011	$ 2,984,000	$ 2,837,275			
S-PMWRA-15-GR-1064	1,832,049	1,832,050			
S-PMWRA-17-GR-1049	590,000	590,000			
Total Revenue	**$ 5,406,049**	**$ 5,259,325**			
Costs Incurred					
Personnel	2,307,300	$ 2,207,593	$ 312	$ 317	B, A
Fringe Benefits	909,114	1,181,372	259,185[5]		D
Travel	245,236	67,736			
Equipment	85,620	87,258	3,327[5]		D
Supplies	280,359	320,083	12,401[5]	9,259[6]	D, C
Construction	-	-			
Other	1,078,803	868,962		37,302[6]	C
Total Direct Charges	**$ 4,906,432**	**$ 4,733,004**	$ 275,225	$ 46,878	
Indirect Charges	499,617	526,321	71,857[7]	5,289[8]	B, D, A, C
Total Costs Incurred	**$ 5,406,049**	**$ 5,259,325**	**$ 347,082**	**$ 52,167**	
Outstanding Balance	**$ 0**	**$ 0**			

[4] The Notes to the Special Purpose Financial Statement are an integral part of the Statement.
[5] The total amount included in Note D of $274,913 is comprised of $259,185, $3,327, and $12,401
[6] The total amount included in Note C of $46,561 is comprised of $9,259 and $37,302
[7] Ineligible indirect costs are comprised of $76 (Note B) and $71,781 (Note D)
[8] Unsupported indirect costs are comprised of $34 (Note A) and $5,255 (Note C)

Mine Detection Dog Center
Notes to the Special Purpose Financial Statement[9]
For the Period April 1, 2013 to September 26, 2018

Note 1. Status and Operation

Mine Detection Dog Center (MDC) is a humanitarian Mine Action Organization registered as a non-profit non-political organization under the laws of Islamic Republic of Afghanistan. It was established as a demining organization in 1989 with the aim of "Making Afghanistan Mine and ERW impact free" where individuals and communities can live in a safe environment.

Since its establishment, MDC has implemented a considerable number of humanitarian demining projects in almost all provinces of Afghanistan where over 310 million square meters of minefields and battlefields were cleared and handed over to communities to be used for socioeconomic purposes. The organization has successfully completed numerous projects under grant agreements from several donor counties and organizations including the United States, Federal Republic of Germany, the United Nations, Government of Japan, Government of Afghanistan, Canada, and Australia.

MDC, as a pioneer in the field of demining with the largest mine dog program in Afghanistan, has used a variety of mine clearance assets such as manual demining teams, Explosive Ordinance Disposal Team, Mechanical demining units and explosive detection dogs.

Note 2. Significant Accounting Policies

a. Basis of Presentation:

The accompanying combined Special Purpose Financial Statement (SPFS) includes costs incurred under grant S-PMWRA-13-GR-1011 to provide quality mine action services in Afghanistan for the period of April 1, 2013 to March 31, 2017; S-PMWRA-15-GR-1064 to provide quality mine action services in Afghanistan for the period of August 18, 2015 to December 14, 2016; and S-PMWRA-17-GR-1049 to provide quality mine action services in Afghanistan for the period of September 27, 2017 to September 26, 2018.

The combined SPFS presents only a selected portion of MDC financial activities and records. It is not intended to and does not present the overall financial position of MDC. The information in this SPFS is presented in accordance with requirements of the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR); therefore, this SPFS may differ from amounts presented in or used in the presentation of the basic financial statements.

[9] The Notes to the Special Purpose Financial Statement are the responsibility of MDC's management.

b. *Basis of Accounting:*
The SPFS reflects the funds received and costs incurred under the grants from PMWRA. The combined SPFS of grant awards is not presented in accordance with accounting principles generally accepted in the United States of America (GAAP). The combined SPFS and other related financial reports have been prepared on a modified accrual basis of accounting. On the modified accrual basis grant revenue is recognized when received rather than when earned, while expenses are recognized when incurred rather than when paid.

c. *Fund Accounting:*
Project funds are recognized when received.

d. *Capital Expenditure:*
Non-Expendable items purchased during project duration are charged as expense. However, a memorandum of record is maintained for management purposes.

e. *Stock, Stores, and Consumable:*
Consumable items, such as stationery and supplies are fully charged to the project as an expense at the time of purchase.

f. *Currency:*
The SPFS is presented in United States Dollars (USD). The funds are received by MDC in USD directly to the bank account. Transactions in currencies other than USD are translated to USD at the exchange rate prevailing in the market on the date of the transaction. The gain or loss arising from such transactions is recorded as income or expense. For the period audited the USD—AFN exchange rate ranged from AFN 65.43 to 69.05 per 1 USD.

g. *Cost incurred by budget Category*:
The budget categories presented, and associated amounts, reflect the budget line items presented with the approved grant award document and amendments made later on.

Note 3. Revenues

Revenues on the SPFS represent the amount of funds received and any gain or loss due to the result of currency exchange transactions.

Note 4. Fund Balance:

The fund balance presented on the SPFS presents the difference between revenues earned and costs incurred or charged on the project. An amount less than zero dollars indicate that project funds were not received on time. Therefore, the cost incurred would be settled upon the receipt of the pending installment. An amount larger than zero dollars reflects revenues that have been received in excess of the costs incurred under the project. Generally, such amounts should be refunded to the Government.

Mine Detection Dog Center
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement [10]

Note A: Unsupported Allocation of Payroll Cost (Finding 2019-01)

Condition: An MDC employee did not identify the grant award on a timesheet to support the salary charged, according to 2 CFR 200, which requires that documentation identify costs with a specific cost objective. We questioned costs of $317, and the associated indirect costs of $34, for a total of $351.

Note B: Incorrect Calculation of Meals and Hazardous Allowances (Finding 2019-02)

Condition: MDC incorrectly calculated meals and hazardous allowances and overcharged the grants $762 for 34 employees and undercharged the grants $450 for 13 employees for a net difference of $312 in overcharged meals and hazardous allowances. We questioned costs of $312 for ineligible meals and hazardous allowances, and the associated indirect costs of $76, for a total of $388.

Note C: Unsupported Non-Labor Costs (Finding 2019-04)

Condition: MDC did not retain sufficient documentation, or the documentation retained did not agree to recorded information, for non-labor costs such as premises rent, mobilization and demobilization, audit fees, supplies, and other. We questioned $46,561 for unsupported non-labor costs, and the associated indirect costs of $5,255, for a total of $51,816.

Note D: Incorrect Application of the De Minimis Rate (Finding 2019-09)

Condition: Actual indirect cost rates used by MDC during the effective period were higher than the de minimis rates resulting in a questioned cost of $71,781 for ineligible indirect costs charged to the grants.

Note E: Unapproved Transfers Among Budget Lines (Finding 2019-10)

Condition: MDC had total transfers of 23.79% between budget lines of grant number SPMWRA13GR1011 that exceeded 10% of the total budget approved by the PMWRA. No evidence was provided to indicate that MDC had sought or received permission from the Grant Officer to make budget line item changes that exceeded 10% of the total budgeted amount for the project resulting in a questioned cost of $274,913 for ineligible budget transfers.

[10] Alphabetic notes to the questioned costs presented on the Special Purpose Financial Statement were developed by and are the responsibility of the auditor.

WILLIAMS ADLEY

Independent Auditor's Report on Internal Control

President and Chief Executive Officer and Board of Managers
Mine Detection Dog Center
Street 14
Kabul, Afghanistan

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

We have audited the Special Purpose Financial Statement (SPFS) and related notes to the SPFS, 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 Mine Detection Dog Center (MDC) under United States Department of State grant numbers S-PMWRA-13-GR-1011, S-PMWRA-15-GR-1064, and S-PMWRA-17-GR-1049 for the period April 1, 2013 to September 26, 2018 and have issued our report thereon, dated April 20, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the SPFS, we considered MDC'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 SPFS, but not for the purpose of expressing an opinion on the effectiveness of MDC's internal control. Accordingly, we do not express an opinion on the effectiveness of MDC'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 MDC's SPFS 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, material weaknesses may exist that have not been identified. We did note three material weaknesses as defined above and described in Findings 2019-04, 2019-09 and 2019-10, two significant deficiencies as defined above and described in Findings 2019-02 and 2019-03, and four internal control deficiencies as defined above and described in Findings 2019-01, 2019-06, 2019-07, and 2019-08 in the attached Schedule of Findings and Questioned Costs.

Mine Detection Dog Center's Response to the Findings

MDC's response to the findings identified in our audit is included verbatim in Appendix A. MDC's response was not subjected to the auditing procedures applied in the audit of the SPFS, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of MDC, State, and SIGAR. 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.
April 20, 2020

WILLIAMS ADLEY

Independent Auditor's Report on Compliance

President and Chief Executive Officer and Board of Managers
Mine Detection Dog Center
Street 14
Kabul, Afghanistan

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

We have audited the Special Purpose Financial Statement (SPFS) and related notes to the SPFS, 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 Mine Detection Dog Center (MDC) under United States Department of State grant numbers S-PMWRA-13-GR-1011, S-PMWRA-15-GR-1064, and S-PMWRA-17-GR-1049 for the period April 1, 2013 to September 26, 2018 and have issued our report thereon, dated April 20, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MDC's SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts 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 seven instances of noncompliance as noted in Findings 2019-01, 2019-03, 2019-04, 2019-05, 2019-06, 2019-09 and 2019-10 in the Schedule of Findings and Questioned Costs, which are required to be reported under *Government Auditing Standards.*

Mine Detection Dog Center's Response to the Findings

MDC's response to the findings identified in our audit is included verbatim in Appendix A. MDC's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of MDC, State, and SIGAR. 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.
April 20, 2020

Schedule of Findings and Questioned Costs

Finding 2019-01: Unsupported Allocation of Payroll Cost

Nature of Finding: Internal Control Deficiency and Non-Compliance

Condition: We randomly selected 50 employees and tested payroll payments made between April 1, 2013 and September 26, 2018, with a cost of $18,307 from total payroll of $2,294,444, and noted that 1 of 50 employees did not identify grant number S-PMWRA-15-GR-1064[11] on a timesheet to support the salary charged as required by federal regulations. 2 CFR § 200.430 requires that documentation identify costs with a specific cost objective. We questioned costs of $317, and the associated indirect costs of $34, for a total of $351.

Criteria:

OMB Circular A-110.21 (b) (3), Standards for financial management systems. Recipient's financial management system shall provide effective control over accountability for all funds.

OMB Circular A-122 Attachment B Compensation for personal services.

(7)(m). Support of salaries and wages.

> "(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 (2)…
>
> (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..."

2 CFR § 200.430 - Compensation – Personal Services; (i) Standards for Documentation of Personnel Expenses: "(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:… (vii) support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal

[11] Grant issuance date was 8/19/2015 with a period of performance from 8/18/2015 to 7/31/2016, with reasonable and allocable pre-award costs allowed as early as 8/1/2015.

award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity."

Cause: MDC did not provide a reason why the employee did not identify grant number S-PMWRA-15-GR-1064 on the timesheet.

Effect: MDC's lack of documentation to support the cost charged to grant number S-PMWRA-15-GR-1064 increases the risk that State is overcharged, charged for services that were never rendered, or incorrectly charged for work not related to the grant.

Questioned Cost: $351 comprised of $317 of unsupported direct costs and $34 of related indirect costs.

Recommendation: We recommend that MDC provide payroll documentation that supports the distribution of the employee's salary or wages to grant agreement number S-PMWRA-15-GR-1064 in accordance with the CFR criteria for Standards for Documentation of Personnel Expenses, or refund to State $317 for unsupported costs plus $34 in related indirect costs.

Finding 2019-02: Incorrect Calculation of Meals and Hazardous Allowances

Nature of Finding: Significant Deficiency in Internal Control

Condition: We randomly selected 50 employees and tested payroll payments made between April 1, 2013 and September 26, 2018, with a cost of $18,307 from total payroll of $2,294,444, and noted that MDC incorrectly calculated meals and hazardous allowances and overcharged the grants $762 for 34 employees and undercharged the grants $450 for 13 employees for a net difference of $312 in overcharged meals and hazardous allowances. We questioned costs of $312 for ineligible meals and hazardous allowances, plus associated indirect costs of $76, for a total of $388.

Table 3 below details the over and undercharges for each grant plus the calculation of related indirect costs:

Table 3: Ineligible Meals and Hazardous Allowances

Meals and Hazardous Allowances			Indirect Costs		Net Difference
Grant Agreement No.	Overcharged	Undercharged	Rate	Amount	Over (Under) Charged
S-PMWRA-13-GR-1011	$ 352	$ 145	10%	$ 35	$ 242
S-PMWRA-15-GR-1064	394	276	10%	39	157
S-PMWRA-17-GR-1049	16	29	10%	2	(11)
Totals	**$ 762**	**$ 450**		**$ 76**[12]	**$ 388**

Criteria:

OMB Circular A-110.21 (b) (3), Standards for financial management systems. Recipient's financial management system shall provide effective control over accountability for all funds.

2 CFR § 200.303 - Internal controls[13].

"The non-Federal entity must: (a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award…"

[12] Indirect cost was calculated using the minimum indirect cost rate of 10% multiplied by the overpaid amount.

[13] The original period of performance of grant number S-PMWRA-13-GR-1011 was 4/17/2013 through 3/31/2014, and several modifications extended the period through 3/31/2017. On 2/26/2015 Modification 004 was issued changing the relevant CFR criteria from 2 CFR 215 (OMB Circular A-110) and 2 CFR 230 (OMB Circular A-122) to 2 CFR 200 and 2 CFR 600.

MDC Standing Operating Procedures Human Resources Administration and Finance Accounting

Section 8.2 Food Allowance (page 31)

- "All staff members of MDC operating in the field under the structures of teams and field offices are entitled to receive USD 4 per day in the field as food allowance which is basically compensating field employees' food expenditure."
- "This allowance is paid in cash and along with monthly salaries and only paid while the teams are on mission, not for official leave days."

Section 11 Field Hazardous Allowance (page 33)

- "This allowance is paid to those employees who may suffer the occupational hazards of working in the minefields or at its boundaries. It is only payable to mentioned categories of regular/full time employees of MDC."

Section 16.9.3 Accounting Controls for Payroll (page 49-50)

- "Attendance books and timesheets are the most common tools used to document employee hours/days and authorize payments to employees. Attendance books are designed to incorporate information about AEL, sick leave, mission leave and holidays. Donors and auditors often require timesheets to document employee time spent for their grants or contracts and all other duties they perform. Attendance books along with their summaries are to be submitted by the related teams/field offices to HR administration department at the end of each month."
- "Controlling officer has to randomly pick and check 10 percent of attendance books of employees."

Section 8.2 (page 31)

- "All staff members of MDC operating in the field under the structures of teams and field offices are entitled to receive USD 4 per day in the field as food allowance which is basically compensating field employees' food expenditure."
- "This allowance is paid in cash and along with monthly salaries and only paid while the teams are on mission, not for official leave days."

Section 11 (page 33)

- "This allowance is paid to those employees who may suffer the occupational hazards of working in the minefields or at its boundaries. It is only payable to mentioned categories of regular/full time employees of MDC."

Cause: The over and undercharges of meals and hazardous allowances occurred because MDC calculated the allowances based on the days listed on the attendance sheets instead of the timesheets. MDC uses both an attendance sheet and a timesheet to track employee time but generally these sheets do not reconcile with one another with respect to the days worked. MDC did not provide an adequate supervisory review to ensure that meals and hazardous allowances were calculated using the employee timesheet instead of the attendance sheet. MDC could not explain why the attendance sheet was used for calculating time worked.

Effect: The absence of adequate controls, such as supervisory review over the calculation of meals and hazardous allowances, increases the risk that State is overcharged for payroll costs.

Questioned Costs: $388 comprised of $312 of ineligible costs and $76 of related indirect costs.

Recommendation: We recommend that MDC:

1. Revise policies and procedures to include supervisory review over the calculation of meals and hazardous allowances to ensure the calculation is accurate and based on appropriate documentation of time worked.

2. Return the $388 to State, which includes $312 in ineligible costs for meals and hazardous allowances, plus related indirect costs of $76.

Finding 2019-03: Failure to Withhold Employee Income Tax

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

Condition: We randomly selected 50 employees and tested payroll payments made between April 1, 2013 and September 26, 2018, with a cost of $18,307 from total payroll of $2,294,444 and noted that MDC did not withhold taxes for meals and hazardous allowances for the 50 employees as required by the Afghanistan Tax Law.

Criteria: OMB Circular A-133.105, Internal Control pertaining to the compliance requirements for federal programs.
"Internal control over Federal programs means a process--effected by an entity's management and other personnel--designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs:

(2) Transactions are executed in compliance with:
- (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
- (ii) Any other laws and regulations that are identified in the compliance supplement[.]"

OMB Circular A-133.300(b). Auditee responsibilities,
States "the auditee shall Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

2 CFR § 200.303 - Internal controls. "The non-Federal entity must: (a) establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award..."

Grant Agreements under Additional Bureau/Post Specific Requirements, "All award recipients must comply with applicable local and national laws in the host countries in which this award is implemented."

Afghanistan Income Tax Law 2009[14] (Dated 18th March 2009 as amended[15])

Chapter Two: Determination of Taxable Income

- Article 13: "Receipts Subject to Tax – (1) The following receipts are subject to income tax: 1. salaries, wages, fees and commissions, …6. any other income from labor, capital, or economic activity,… [and] 8. Income from other circumstances provided in this law…"

Chapter Nine: Withholding Taxes on Sources of Income

- Article 58: "Withholding and payment of tax - All natural or legal profit and non-profit persons, ministries, state enterprises, municipalities and other State departments employing two or more employees in any month of a year shall be required to withhold taxes as provided in Article 4[16] of this Law from payment of salaries and wages and pay the amount withheld to the Government account."

- Article 60: "Remittance of tax payments - Any employer required to withhold tax under Article 58 of this Law shall remit to the State the amount withheld not later than 10 days after the end of the month in which the amounts were withheld…"

Tax Administration Law[17] (Additional Taxes November 2015 (27 Aqrab 1394)[18]

Chapter Nine: Additional Tax for late payment

- Article 34 – (2) "Additional Tax for Late Payments states that an additional tax for late payment of withholding tax under the tax laws, or late payment of an amount specified in a notice under Article 16[19] of this Tax Administration Law, shall be paid by the person required to withhold and pay it and it shall not be recovered from the payee".

---

[14] Translation of the Afghanistan Income Tax Law 2009 has been prepared by the Afghanistan Revenue Department, Ministry of Finance. It is not an official version of the law and should be read and used with regards to this limitation. All reasonable effort has been made to provide an accurate translation of the law as published in the Official Gazettes. Where a person requires more certainty than an unofficial translation of the law can provide, that person is advised to seek professional advice based on the law in the languages of Dari and Pashtu as published in the Official Gazettes.

[15] The Income Tax Law 2009 as published in Official Gazette number 976 dated 18th March 2009 incorporating consolidated amendments published in the Official Gazette number 1103 dated 14 April 2013, the Official Gazette number 1115 dated 21 September 2013, the Official Gazette number 1118 dated 20 October 2013, the Official Gazette 01198 dated 18 November 2015, the Official Gazette 1181 dated 16 September 2015, the Official Gazette 1206 dated 15 March 2016, and the Official Gazette 1209 dated 13 April 2016.

[16] Afghanistan Income Tax Law 2009 (Dated 18th March 2009 as amended) Article 4 - Tax calculation

[17] Version: Published in OG 01198/18 November 2015 (27 Aqrab 1394). A note for readers of this English version: it is an unofficial translation of the Law. The authentic law is the versions Gazetted in Dari and Pashto.]

[18] The requirement included in the Tax Administration Tax Law only applies to the award: S-PMWRA-17-GR-1049 issued on 9/27/2017

[19] Article 16 - Collection of a taxpayer's unpaid tax from third parties.

- Article 36: Additional tax for failure to withhold or pay withholding tax -

  (1) "Where a person fails to withhold or pay tax from payments subject to withholding tax, they shall be liable to pay additional tax equal to 10% of the amount of tax deducted from the payment."
  (2) "The liability for the amount under subsection (1) of this Article shall be borne by the person who failed to withhold or pay the tax."

Chapter 10 Tax Penalties

- Article 45: "Tax Offences (2)" A person who, without reasonable excuse, fails to withhold or pay withholding tax as required by the tax laws shall as per the circumstances be liable upon conviction by an authorized court to a monetary penalty equal to 10% of the withholding tax collectible or to imprisonment for a term not exceeding six months, or both".

Mine Detection Dog Center (MDC) Standing Operating Procedures (SOP) Human Resource Administration and Financial Accounting Taxation: "Salaries of all MDC staff members are subject to taxation. It is the responsibility of MDC and individuals to ensure that they comply with the taxation laws that may apply to them."

Cause: MDC management stated that they were not aware that the allowances were required to be included in the salary amount when calculating tax withholding.

Effect: MDC is not in compliance with State's Mandatory Award Provisions and does not have proper internal controls as required by 2 CFR §200.303 to provide reasonable assurance that MDC is handling payroll taxes appropriately. The absence of adequate controls over the calculation of payroll and related taxes increases the risk of payroll errors and erodes confidence in MDC's ability to manage the grants in compliance with the terms and conditions of the award.

Questioned Cost: None. Although the transactions violated Afghan tax laws, no questioned cost resulted from these transactions because we could not obtain evidence that taxes were later remitted to the MOF and then billed to PMWRA.

Recommendation: We recommend that MDC:

1. Develop and implement controls such as training on the Afghanistan Tax Law requirements to ensure all related employee income taxes are properly assessed and withheld in accordance with 2 CFR, Part 200, Department of State Mandatory Award Provisions, and Afghanistan tax law.

2. Provide State with documentation that confirms taxes in these 50 instances were remitted to the Afghanistan Ministry of Finance and not billed to or refunded by State.

Finding 2019-04: Unsupported Non-Labor Costs

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

Condition: We reviewed a sample of disbursements totaling $1,199,579, from a population of $2,525,411, and noted that MDC did not retain sufficient documentation, or the documentation retained did not agree to recorded information, for $46,561 in non-labor costs such as premises rent, mobilization and demobilization, audit fees, supplies, and other incurred between April 1, 2013 and September 26, 2018. Table 4 below provides a description of the direct questioned costs for the unsupported non-labor costs, and Table 5 shows the questioned costs and associated indirect costs of $5,255, by grant.

Table 4 – Questioned Costs for Unsupported Non-Labor Costs

Description	Sample Occurrences	Questioned Cost
Premises Rent	1/157	$ 17,291
Movement of Teams (Mobilization/De-mobilization)	1/157	12,500
Audit Fee	1/157	7,000
Supplies	4/157	9,259
Other	4/157	511
Total Questioned Costs - Direct		$ 46,561

Table 5 – Questioned Costs and Related Indirect Costs By Grant

Awards	Questioned Cost By Grant	Indirect Costs	Total Questioned Amount
SPMWRA13GR1011	$ 37,353	$ 4,333	$ 41,686
SPMWRA17GR1040	9,077	908	9,985
SPMWRA15GR1064	131	14	145
Total	$ 46,561	$ 5,255	$ 51,816

Criteria:

OMB Circular A-110.21 Standards for financial management systems.

"(b) (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest."

(b) (3**)** Recipients financial management system shall provide effective control over accountability for all funds.

"(b) (7) Accounting records including cost accounting records that are supported by source documentation."

OMB Circular A-110.21.53 (b), Retention and access for records. "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…"

2 CFR § 200.302 - **Financial Management**,
Requires non-Federal entities to maintain: "(a)…["A] financial management system, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award…"

(b)(3) "Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation".

(b)(4) Effective control over, and accountability for, all funds, property, and other assets…"

2 CFR § 200.333 – **Retention requirements for records**,
Requires that "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…"

Mine Detection Dog Center (MDC) Standing Operating Procedures Human Resources Administration and Financial Accounting:

16.4. Retention and Access to Records: Considering different donors' financial requirements and Afghanistan NGO's law, MDC is committed to retain all vouchers for five to seven years (depending on terms of related donors' agreements). During the mentioned period of time the vouchers and financial records would be made available to donors and donors' assigned audits and committees.

Cause: MDC management stated that because MDC is a multi-donor organization it is audited every year by different auditors. MDC stated that most of the vouchers we tested related to 2013 and 2014 and it is likely that the documents were misplaced during the many audits in prior years. Although MDC does have policies and procedures related to retention and access to records, MDC management did not ensure that documentation to support costs incurred was accounted for and properly filed after being examined by auditors.

Effect: The absence of adequate documentation to support costs prevents a determination that costs charged to State were accurate and allowable.

Questioned Cost: $51,816 comprised of $46,561 in unsupported costs and $5,255 in related indirect costs.

Recommendation: We recommend that MDC:

1. Implement supervisory review procedures to ensure that controls over maintenance and retention of adequate documentation to support costs incurred are performed in accordance with federal regulations and MDC standard operating procedures.

2. Provide State with the appropriate source documentation to substantiate the allowability of the $46,561 in questioned costs or reimburse State the $51,816 in unsupported costs, which includes $5,255 in related indirect costs.

Finding 2019-05: Failure to Submit Timely Financial Reports

Nature of Finding: Non-Compliance

Condition: Upon review of the submission of quarterly financial reports, we noted that MDC submitted 19 of 29 SF-425, *Federal Financial Report,* late and had not submitted five reports. According to the terms of the grant agreements, MDC is required to submit quarterly program and financial reports 30 days after the calendar year quarter. Tables 6 and 7 identify the late and delinquent (not submitted) reports, respectively:

Table 6 – Late SF-425s

Grant Award	# of SF-425 Submitted Late
S-PMWRA-17-GR-1049	6
S-PMWRA-15-GR-1064	6
S-PMWRA-13-GR-1011	7
Total	19

Table 7 – Delinquent SF-425s

Grant Award	# of SF-425 Not Submitted	Reporting Period
S-PMWRA-17-GR-1049	2	9/3017 9/30/18
S-PMWRA-15-GR-1064	1	9/30/2015
S-PMWRA-13-GR-1011	2	9/30/2014 12/31/2014
Total	5	

Criteria: [20] [21]

OMB Circular A-110.21 (b) Standards for financial management system. "Recipients' financial management systems shall provide for the following.

(1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in Section .52…"

OMB Circular A-110.52 (a), Financial Reporting.
Forms approved by OMB are authorized for obtaining financial information from recipients.

[20] Grants S-PMWRA-15-GR-1064 and S-PMWRA-17-GR-1049 fall under the requirements of 2 CFR. 200.
[21] Grant S-PMWRA-13-GR-1011 falls under the requirements of OMB Circular A-110.

OMB Circular A-110.51 Monitoring and reporting program performance. "(b) The Federal awarding agency shall prescribe the frequency with which the performance reports shall be submitted. Except as provided in paragraph .51(f), performance reports shall not be required more frequently than quarterly or, less frequently than annually. Annual reports shall be due 90 calendar days after the grant year; quarterly or semi-annual reports shall be due 30 days after the reporting period. The Federal awarding agency may require annual reports before the anniversary dates of multiple year awards in lieu of these requirements. The final performance reports are due 90 calendar days after the expiration or termination of the award."

OMB Circular A-110.53 Retention and access requirements for records. "(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…"

2 CFR § 200.327, Financial reporting*,*
"*Unless* otherwise approved by OMB, the Federal awarding agency may solicit only the standard, OMB-approved government-wide data elements for collection of financial information (at time of publication the Federal Financial Report or such future collections as may be approved by OMB and listed on the OMB Web site). This information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than annually…"

200 CFR § 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 as reported to the Federal awarding agency or pass-through entity in the case of a subrecipient…."

Grant Awards under Reporting and Monitoring. "The Recipient is required to submit quarterly program and financial reports thirty (30) calendar days after the calendar year quarter. A final certified financial report and program report must be submitted to the Grants or Principal Officer within ninety (90) days after the award period end date. The Federal Financial Report (FFR SF-425/SF-425a) must be submitted for all financial reports. Failure to comply with these reporting requirements may jeopardize the Recipient's eligibility for future awards and/or delays in payments."

Mine Detection Dog Center MDC Standing Operating Procedures Human Resources Administration and Financial Accounting

16.4. Retention and Access to Records:
Considering different donors' financial requirements and Afghanistan NGO's law MDC is committed to retain all vouchers for five to seven years (depending on terms of related

donors' agreements). During the mentioned period, the vouchers and financial records would be made available to donors and donors' assigned audits and committees.

Cause: MDC stated that most of the late SF-425 forms were submitted on time as they could not receive their next advance without submitting the forms. MDC further stated that the dates we reviewed during our audit were the dates they had to resubmit forms per the Payment Management System (PMS) because of PMS' technical problems. Although MDC experienced challenges with timely submission of some of its SF-425 forms due to PMS system issues, MDC's controls over document retention were not sufficient to ensure that evidence of submission was maintained as required by 200 CFR §200.333 *Retention requirements for records*.

For one of the SF-425 forms not submitted for grant S-PMWRA-13-GR-1011, MDC stated it did not submit the form because there was no financial activity on the grant. We noted that State reporting requirements for submission of the SF-425 do not include a waiver for submission when there is no grant activity. MDC did not submit the required report due to its misunderstanding or misinterpretation of regulatory guidance on the matter.

Effect: Untimely financial reporting diminishes State's ability to properly monitor and make informed decisions about the grant activities it funds.

Questioned Cost: None. Although MDC did not comply with reporting requirements as stated by the laws, regulations, and grant agreements included in the criteria above, no questioned cost was included because no monetary penalties are stated for noncompliance with reporting requirements.

Recommendation: We recommend that MDC develop controls to ensure that required financial reports are prepared and submitted accurately, completely, and timely. These controls should include requirements that: (a) Regardless of activity status the report should be submitted; (b) Supporting documents for each SF-425 should be maintained to prove that the original submission was timely; (c) Individuals responsible for report submissions should be required to review the regulations and award requirements pertinent to financial reporting and certify they fully understand and will abide by the applicable regulations and other requirements for financial reporting.

Finding 2019-06: Non-Compliance with Afghan Tax Law

Nature of Finding: Internal Control Deficiency and Non-Compliance

Condition: We tested a sample of 112 disbursements and noted that MDC did not comply with Afghan tax law as described in the table below:

Table 8 – Tax Discrepancies

Conditions	Sample Occurrences	Questioned Costs
Tax noncompliance – Tax submission form was not included	8	$ 0
Tax noncompliance – Tax was not withheld from payment to supplier in accordance with Afghan tax law	10	$ 0
Tax noncompliance – Tax of 2% was withheld but because supplier did not have a business license 7% should have been withheld according to Afghan tax law	2	$ 0

Criteria: OMB Circular A-133.105, Internal Control pertaining to the compliance requirements for federal programs.
"Internal control over Federal programs means a process--effected by an entity's management and other personnel--designed to provide reasonable assurance regarding the achievement of the following objectives for Federal programs:…

(2) Transactions are executed in compliance with:
(i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
(ii) Any other laws and regulations that are identified in the compliance supplement[.]"

OMB Circular A-133.300(b), Auditee responsibilities,
States that "the auditee shall Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

2 CFR § 200.303 - Internal controls. The non-Federal entity must:
"(a) "Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.…"

Grant Agreements under Additional Bureau/Post Specific Requirements "All award recipients must comply with applicable local and national laws in the host countries in which this award is implemented."

Afghanistan Income Tax Law 2009[22] [23]

Article 72, Withholding tax on contractors.

(1) “Persons who, without a business license or contrary to approved by-law, provide supplies, materials, construction and services under contract to government agencies, municipalities, state entities, private entities and other persons shall be subject to 7 percent fixed tax in lieu of income tax. This tax is withheld from the gross amount payable to the contractor.”

(2) “Persons who have a business license and provide the services and other activities mentioned in paragraph (1) of this Article to the specified entities shall be subject to 2 percent contractor tax. The tax levied by this paragraph is creditable against subsequent tax liabilities.”

(3) “The tax mentioned in paragraph (1) and (2) of this Article shall be withheld by the payer from payment and shall be transferred to the relevant account within ten days. Contractors subject to this Article shall be required to, upon signing the contract, send a copy thereof to the relevant tax administration. Natural persons who, according to provision of paragraph (1) of Article 17[24] of this Law, earn taxable salaries shall be excluded from this provision.”

Afghanistan Tax Administration Law[25] [26]

Chapter 9: Additional Taxes

Article 34 Additional Tax Late Payment.

(2) Additional tax for late payment of withholding tax under the tax laws, or late payment of an amount specified in a notice under Article 16[27] of this Law, shall be paid by the person required to withhold and pay it and it shall not be recovered from the payee.

[22] This translation has been prepared by the Afghanistan Revenue Department, Ministry of Finance. It is not an official version of the law and should be read and used with regards to this limitation. All reasonable effort has been made to provide an accurate translation of the law as published in the Official Gazettes. Where a person requires more certainty than an unofficial translation of the law can provide, that person is advised to seek professional advice based on the law in the languages of Dari and Pashtu as published in the Official Gazettes.

[23] The Income Tax Law 2009 as published in Official Gazette number 976 dated 18th March 2009 incorporating consolidated amendments published in the Official Gazette number 1103 dated 14 April 2013, the Official Gazette number 1115 dated 21 September 2013, the Official Gazette number 1118 dated 20 October 2013, the Official Gazette 01198 dated 18 November 2015, the Official Gazette 1181 dated 16 September 2015, the Official Gazette 1206 dated 15 March 2016, and the Official Gazette 1209 dated 13 April 2016.

[24] Tax Administration Law; Article 17 - Change of tax recovery notice to a third party

[25] Version: Published in OG 01198/18 November 2015 (27 Aqrab 1394) [A note for readers of this English version: it is an unofficial translation of the Law. The authentic law is the versions Gazetted in Dari and Pashto.]

[26] The requirement included in the Tax Administration Tax Law only applies to the following grant: S-PMWRA-17-GR-1049 issued on 9/27/2017

[27] Tax Administration Law; Article 16 - Collection of a taxpayer’s unpaid tax from third parties

Article 35 Additional tax for failure to submit a tax document

(1) A person who without reasonable cause fails to submit to the taxation administration a tax return or any other document required to be submitted under any tax law if a natural person shall be liable to additional tax of Afn. 30 and if a legal person to Afn. 100 for each day of delay.

Chapter 10: Tax Penalties

(2) A person who, without reasonable excuse, fails to withhold or pay withholding tax as required by the tax laws shall as per the circumstances be liable upon conviction by an authorized court to a monetary penalty equal to 10% of the withholding tax collectible or to imprisonment for a term not exceeding six months, or both.

Mine Detection Dog Center (MDC) Standing Operating Procedures (SOP) Human Resource Administration and Financial Accounting Taxation: “Salaries of all MDC staff members are subject to taxation. It is the responsibility of MDC and individuals to ensure that they comply with the taxation laws that may apply to them.”

Cause: MDC did not have proper controls in place to ensure compliance with federal regulations, Afghan tax law, and its own policies and procedures with respect to tax withholding. MDC acknowledged that it was not fully aware of tax withholding requirements in the earlier years of the grants and had an issue with an incompetent employee who was responsible for disbursements.

Effect: MDCs failure to enforce Afghan tax law increases the risk that grant funds may have been improperly used in other instances if MDC submitted the required tax withholdings to the Afghanistan government and charged those tax payments to the grants. Since MDC as the payor is responsible for paying withheld taxes to the Afghanistan government, MDC may be subject to fines and back payment of taxes for which the U.S. government is not responsible and that are not allowable costs under the grants.

Questioned Cost: None. Although the transactions violated Afghan tax laws, no questioned cost resulted from these transactions because we could not obtain evidence that taxes were later remitted to the Afghanistan government and then billed to the PMWRA.

Recommendation: We recommend that MDC:

1. Implement controls to ensure that taxes are properly withheld and paid in accordance with federal regulations, Afghanistan tax law, and MDC policies and procedures.

2. Provide the PMWRA with documentation that confirms taxes in the 10 instances were remitted to the Afghanistan government and not billed to or refunded by the PMWRA.

Finding 2019-07: Omitted General Ledger Transaction

Nature of Finding: Internal Control Deficiency

Condition: Although the total amount of disbursements included in the general ledger (GL) agreed with the Special Purpose Financial Statement (SPFS) for grant number S-PMWRA-13-GR-1011, we identified a difference of $17,291 in the categories of supplies and others (meaning other direct costs). The SPFS budget line item for supplies was greater than the GL amount by $17,291 and the other direct costs line item was lower than the GL by the same amount. See Table 9 below for details:

Table 9 – Variance Between SPFS and GL

Budget Line	Per SPFS	Per GL	Variance
Personnel Costs	$ 1,156,534	$ 1,156,534	$ -
Fringe Benefits	621,297	621,297	-
Travel	54,443	54,443	-
Equipment	38,946	38,946	-
Supplies	170,050	152,759	17,291
Others	500,062	517,353	(17,291)
Indirect Charges	295,943	295,943	-
Total	**$ 2,837,275**	**$ 2,837,275**	**$ -**

Upon inquiry MDC said that the transaction had been cancelled, and later provided us an “adjusted” GL where the transaction had been completely removed, but MDC did not create and retain proper supporting documentation of the removal of the transaction from the GL. While this removal has no monetary impact on the GL, MDC should have properly accounted for and documented the transaction per CFR 200.62 and its own policies.

Criteria:

2 CFR § 200.62 - Internal control over compliance requirements for Federal awards. “Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal awards:
(a) Transactions are properly recorded and accounted for, in order to:
(1) Permit the preparation of reliable financial statements and Federal reports;
(2) Maintain accountability over assets; and
(3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award…”

2 CFR § 200.303 (a) Internal Controls.
The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Mine Detection Dog Center (MDC) Standing Operating Procedures Human Resources Administration and Financial Accounting
16.8. Recording Transactions: All transactions must be recorded by either Payment Vouchers (PV) for payments, Cash Receipts Vouchers (CRVs) for cash receipts, or Journal Vouchers (JVs) for adjustments:

All vouchers are accounted for in numerical and chronological order and must be duly checked, controlled, verified and approved. The vouchers must be starting with number 001 at the beginning of each project. The number assigned to the voucher must indicate the type of voucher, project, year, month and voucher number. For example, the first PV of German funded project in April 2009 is to be numbered as following: PV-Germany (-09-10)-04-001. The same applies to CRVs and JVs.

Cause: When MDC entered the transactions relating to journal voucher JV-USDOS-1011 SANG-USD-08-09-12-AD001 two different cost categories were used with two descriptions attached to the GL transaction. MDC said the JV was cancelled and subsequently revised their GL to agree to the Income and Expenditure Report, but in the revised version, MDC removed the transactions instead of reversing them. We found that MDC does not have sufficient internal controls, such as adequate training and supervisory review, to ensure that errors are being corrected properly.

Effect: Improper accounting and lack of documentation for general ledger transactions may affect the accuracy of financial statements and increases the risk that costs charged to the grants are not legitimate.

Questioned Costs: None. Although MDC should have properly accounted for and documented the transaction per CFR 200.62 and its own policies, no questioned cost was included because no monetary penalties are stated for this deficiency in internal control over compliance requirements.

Recommendation: We recommend that MDC revise its policies and procedures related to bookkeeping to ensure adequate training for employees, to include the best practice of reversing entries rather than removing them, and proper supervisory review.

Finding 2019-08: Lack of Proper Segregation of Duties Over Inventory

Nature of Finding: Internal Control Deficiency

Condition: MDC does not have proper segregation of duties for physical inventory counts, maintenance of inventory records, disposal of inventory items, and recordation of inventory balances in the general ledger. The Procurement Assistant completes these four tasks alone, and without approval from senior management. The Director only approves the release of items from inventory as a final step.

Criteria: OMB Circular A-110.21 (b) (3), Standards for financial management systems.

> Recipient's financial management system shall provide effective control over accountability for all funds.

2 CFR § 200.303 - Internal controls. **"**The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award…"

2 CFR § 200.313(d) - Equipment. "Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part under a Federal award, until disposition takes place will, as a minimum, meet the following requirements:…(3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft must be investigated…"

GAO Standards for Internal Control in the Federal Government, Segregation of Duties

> 10.12 Management considers segregation of duties in designing control activity responsibilities so that incompatible duties are segregated and, where such segregation is not practical, designs alternative control activities to address the risk.
>
> 10.13 Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.
>
> 10.14 If segregation of duties is not practical within an operational process because of limited personnel or other factors, management designs alternative control activities to address the risk of fraud, waste, or abuse in the operational process.

Mine Detection Dog Center (MDC) Standing Operating Procedures (SOP) Human Resource Administration and Financial Accounting 16.9.1.1. Segregation of Duties: Financial transactions should not be handled by only one person from beginning to end. Different people should authorize payments, sign checks, record payments in the books, and reconcile the bank statements.

Cause: MDC lacks sufficient internal controls related to inventory management as segregation of duties were not defined by MDC in its standard operating procedures related to inventory or equipment.

Effect: Without proper segregation of duties over inventory, errors or fraud may not be prevented or detected in a timely manner. There is an increased risk that an employee, who has the sole responsibility to record the inventory within the general ledger and submit inventory counts, could remove inventory from the management or financial system and intentionally misrepresent the numbers on the physical count. Additionally, MDC may not detect and report inventory to the PMWRA, therefore limiting the PMWRA's ability to determine and fully account for the resources it funded.

Questioned Cost: None. Although MDC does have written policies requiring proper segregation of duties, those policies do not define segregation of duties procedures related to inventory or equipment to ensure compliance with the 2 CFR §200.313. No questioned cost was included because no monetary penalties are stated for noncompliance with maintaining effective internal control over the Federal award.

Recommendation: We recommend that MDC develop and implement segregation of duties controls over inventory to separate, to the extent possible, the roles of purchase authorization, inventory custody, and accounting activities to avoid errors and fraud. These controls should include best practices for control activities using the guidance of COSO[28], for example increasing review and oversight functions and rotating key job duties to support cross-training, or compensating controls to minimize the risk that an employee could remove inventory from the management or financial system and intentionally misrepresent the numbers on the physical count.

[28] The Committee of Sponsoring Organizations of the Treadway Commission

Finding 2019-09 Incorrect Application of the De Minimis Rate

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

Condition: During our review of indirect cost rates applied by MDC, we observed that the actual indirect cost rates used by MDC during the effective period were higher than the de minimis rates. See Tables 10 and 11 below for further detail:

Table 10 – Comparison of Indirect Cost Rates Used and De Minimis Rate

		Indirect Cost Rates	
Grant Number	Period of Performance	MDC Actual	De Minimis
SPMWRA17GR1049	9/27/17 – 9/26/18	10.23%	10.00%
SPMWRA13GR1011	4/1/13 – 3/31/17	11.83%	10.00%
SPMWRA15GR1064	8/18/15 – 12/14/16	10.91%	10.00%

Table 11 – Questioned Cost Based on Actual vs. De Minimis Indirect Cost Amounts

Grant Number	Total Direct Costs	MTDC Direct Costs[29]	De Minimis Rate or Approved[30]	Indirect Cost as per Auditors	Indirect Costs Actual	Indirect Costs Overcharged Amount
SPMWRA17GR1049	$ 536,379	$ 510,306	10.00%	$ 51,031	$ 53,621	$ 2,590
SPMWRA13GR1011	$ 2,541,332	$ 2,440,854	10.00%	$ 244,085	$ 295,943	$ 51,858
SPMWRA15GR1064	$ 1,655,293	$ 1,594,240	10.00%	$ 159,424	$ 176,757	$ 17,333
Total Questioned Cost for Overcharged Indirect Costs						$ 71,781

Criteria:

2 CFR § 200.414(f) - Indirect (F&A) costs,
States, that "any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. As described in §200.403 Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for a rate, which the non-Federal entity may apply to do at any time."

[29] Modified Total Direct Costs (MTDC) = Actual Direct Cost less excluded costs incurred for equipment and rental costs as required by 2 CFR 200 § 200.68
[30] Rate used may be the approved rate if the approved rate is less than the de minimis rate of 10%.

2 CFR § 200.68 - Modified Total Direct Cost (MTDC),
States that "MTDC will include all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first $25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of $25,000…"

Cause: Although MDC does have written budget policies and procedures related to the Budget Development Process, which include monitoring procedures, MDC management did not enforce its implementation to ensure that the de minimis indirect cost rate was applied to direct costs in accordance with 2 CFR, Part 200 requirements.

Effect: MDC's failure to adhere to its own budget policies and 2 CFR, Part 200 requirements increases the risk of improper billing to the U.S. Government for ineligible indirect costs. In addition, it diminishes the PMWRA's ability to track award expenditures and budgets through the SF-425, *Federal Financial Report,* when indirect cost calculations shown on that report are incorrect.

Questioned Cost: $71,781 for ineligible indirect costs charged to the grants.

Recommendation: We recommend that MDC:

1. Review and enhance its budget policies and procedures, including monitoring procedures, to ensure the appropriate indirect cost rates are applied as stated in the grant award or 2 CFR, Part 200, as applicable.

2. Refund $71,781 to the PMWRA for the ineligible indirect costs.

Finding 2019-10: Unapproved Transfer Among Budget Lines

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

Condition: During our review of budget vs actual amounts, we observed that grant number SPMWRA13GR1011 had a total amount of transfers between budget lines of 23.79% which exceeded 10% of the total budget approved by the PMWRA. See Tables 12 and 13 for details:

Table 12 – Budget to Actual Variances

Budget Line	Budget	Actual	Variance Over (Under) Budget	Variance Percentage per Line Item	Absolute Value of the Variances
Personnel Costs	$ 1,264,517	$ 1,156,534	($ 107,983)	(8.54)	$ 107,983
Fringe Benefits	362,112	621,297	259,185	71.58	259,185
Travel	204,526	54,443	(150,083)	(26.62)	150,083
Equipment	35,619	38,946	3,327	9.34	3,327
Supplies	140,358	152,759	12,401	8.83	12,401
Others	694,270	517,353	(176,917)	(25.48)	176,917
Subtotal	$ 2,701,402	$ 2,541,332			$ 709,896
Indirect Charges	$ 282,598	$ 295,943	$ 13,345	4.72	-
Total	$ 2,984,000	$ 2,837,275			23.79%[31]

No evidence was provided to indicate that MDC had sought or received permission from the Grant Officer to make budget line item changes that exceeded 10% of the total budgeted amount for the project. Failure to obtain approval for a budget realignment prior to incurring costs in excess of the budget for individual CLINs resulted in ineligible costs of $274,913. The table below details the lines items where the actual costs exceeded the budgeted amounts:

Table 13 – Questioned Cost Due to Budget Overrun

Budget Line	Budget	Actual	Variance Over Budget
Fringe Benefits	$ 362,112	$ 621,297	$ 259,185
Equipment	35,619	38,946	3,327
Supplies	140,358	152,759	12,401
Total Questioned Costs			$ 274,913

[31] The total amount does not include any change in indirect costs. The 23.79% was computed based on the absolute value of the direct costs divided by the total budgeted amount ($709,896/$2,984,000).

Criteria: OMB Circular A-110.25 (f), "The Federal awarding agency may, at its option, restrict the transfer of funds among direct cost categories or programs, functions and activities for awards in which the Federal share of the project exceeds $100,000 and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total budget as last approved by the Federal awarding agency. No Federal awarding agency shall permit a transfer that would cause any Federal appropriation or part thereof to be used for purposes other than those consistent with the original intent of the appropriation."

The Office of Weapons Removal and Abatement, Bureau of Political-Military Affairs (PMWRA) shows the terms and condition (10% Rule) when the Grant Officer's permission is required for transfer of funds among direct cost categories where such cumulative transfers exceeds 10% of total grant amount over the total lifetime of the grant.

Mine Detection Dog Center (MDC) Standing Operating Procedures Human Resources Administration and Financial Accounting 16.10.2 Budget Development Process (7) Budget Monitoring: Budget versus actual results are to be compared and monitored throughout the year. In case of variances beyond the limitations of the contracts, the budgets are to be negotiated with concerned donors and amended if necessary.

Cause: MDC management stated that for the period April 1, 2013 to September 30, 2014 the PMWRA recommended that food allowances be charged under the Travel Category and life insurance premiums be charged under the Personnel Costs Category since MDC did not have a Fringe Benefits budget category. From October 1, 2014 and onward, based on the PMWRA's recommendation, food allowances and life insurance premiums were budgeted as Fringe Benefits.

MDC also stated they did not receive the final budget worksheet from PMWRA timely and that they thought the food allowances and life insurance premiums were budgeted under the Fringe Benefits Category for the period April 1, 2013 to March 31, 2017. Therefore, in the previous grant's award period they reported those costs as Fringe Benefits. It was not until MDC received the final budget worksheet that they realized food allowances and life insurance premiums were not budgeted under Fringe Benefits for the duration of the grant. In the revised final grant GL, food allowances and life insurance premiums were reported as they were initially budgeted.

MDC did not ensure that costs incurred were recorded as stated in the approved budget revision. As a result, MDC did not realign the budget and obtain Grant Officer approval prior to incurring costs in excess of the budget to ensure compliance with OMB Circular A-110 and the PMWRA 10% Rule.

Effect: Exceeding the accumulative amount of transfers between budget line items without prior approval of the Grant Officer undermines the PMWRA's ability to determine and fully account for the resources funded by the PMWRA.

Questioned Cost: $274,913 in ineligible costs.

Recommendation: We recommend that MDC:

1. Improve its budget monitoring procedures to detect and prevent budget overruns and ensure that budget realignment is timely requested and approved.

2. Train staff on the requirements for budget line item transfers to ensure compliance with OMB Circular A-110 and the PMWRA 10% Rule.

3. Provide evidence that the PMWRA gave prior approval to exceed budget line items or return the $274,913 for costs in excess of the budget.

Status of Prior Audit Findings and Recommendations

We reviewed one prior audit report pertaining to MDCs activities in Afghanistan. The report contained seven findings and recommendations that could have a direct and material impact on the Special Purpose Financial Statement or other financial information significant to the audit objectives. We conducted follow-up procedures including discussions with management and performed testing of similar matters during our audit.

Report: SIGAR 16-28, Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by the Mine Detection Dog Center issued November 12, 2015.

The report addresses expenditures charged to six of the PMWRA's grants between April 1, 2011 to September 30, 2014. During our testing, we reviewed the seven findings and recommendations identified in this prior audit report and determined that four of the seven findings were repeated, and corrective action was taken for the remaining three.

See below summary of prior audit findings, corrective action taken, and the status:

Finding Number 1 – Material Weakness and Material Noncompliance – Unsupported Payroll Costs

> **Issue:** A reasonable basis for the labor allocation billed to the project could not be determined because MDC performed multiple projects with multiple donors. The auditor questioned costs of $72,303 in incurred payroll costs and $8,823 in indirect costs associated with the questioned payroll.
>
> **Status:** Closed – We did not note payroll costs allocated to the grants based on an unapproved allocation.

Finding Number 2 – Significant Deficiency and Non-Compliance – Unsupported Disbursement Costs

> **Issue:** $15,777 related to charges for Supplies were missing supporting documentation. Questioned costs total $17,654 which includes $1,877 in related indirect costs.
>
> **Status:** Open – See Finding 2019-04 of this report.

Finding Number 3 – Non-Compliance - Inventory Controls

> **Issue:** MDC did not provide documentation of its most recent physical inventory and the listing of all property, plant, and equipment purchased with State Department funds or assigned to State Department activities. MDC also did not consistently capture the required information within their registers such as model number of inventories, award number, and the ultimate disposition data was not

recorded. Further, MDC did not provide evidence that it had conducted physical inventory inspections and reconciliations to equipment records at least once every two years as required.

Status: Closed - We did not observe the same issues related to physical inventory. However, we did observe lack of segregation of duties over inventory. See Finding 2019-06.

Finding Number 4 - Non-Compliance - Financial Reporting

Issue: The Federal Financial Report (FFR) form SF-425 did not include disbursements under field 1o (b) in the quarter ended September 30, 2013 for grants SPMWRA-13-GR-1018 and 13-GR-1005. However, based on the general ledger, MDC should have reported cash disbursements for direct charges for goods and services, indirect expenses charged to the grant, and cash advances during this reporting period. These amounts were later reported on the financial report for the following quarter that ended on December 31, 2013.

-

Status: Open – See Finding 2019-05 of this report

Finding Number 5 - Non-Compliance - No Withholding Tax

Issue: During disbursement testing the auditors noted 22 instances where taxes had not been deducted from payments to suppliers.

Status: Open – See Finding 2019-06 in this report.

Finding Number 6 - Non-Compliance - Account Misclassification

Issue: During disbursement testing the auditors noted 23 instances of costs for "Dog Facilities (Kennels, Shelters, Maintenance)" charged as expendable equipment and materials under "Premises cost" charged as "minor repair and maintenance."

Status: Closed - We did not note any account misclassifications during our audit.

Finding Number 7 - Internal Control Deficiency - No "PAID" Stamp on Invoice

Issue: During disbursement testing the auditors noted 71 instances where the voucher or vendor invoice was not stamped as "PAID" after payment.

Status: Open - See Finding 2019-04 in this report.

Summary of Finding Status:

Finding	Description	Status	Comment
Finding 2015-01	Unsupported Payroll Costs (Material Weakness and Material Non-Compliance)	Closed	Prior finding was based on an unapproved allocation method. Current Finding 2019-01 relates to payroll internal controls.
Finding 2015-02	Unsupported Disbursement Costs (Significant Deficiency and Non-Compliance	Open	See Finding 2019-04
Finding 2015-03	Inventory Controls (Non-Compliance)	Closed	Prior finding was based on physical inventory counts. Current Finding 2019-08 relates to lack of segregation of duties over inventory.
Finding 2015-04	Financial Reporting (Non-Compliance)	Open	See Finding 2019-05
Finding 2015-05	No Withholding Tax (Non-Compliance)	Open	See Finding 2019-06
Finding 2015-06	Account Misclassification (Non-Compliance)	Closed	We noted no instances during our audit.
Finding 2015-07	No "PAID" Stamp on Invoice (Internal Control Deficiency)	Open	See Finding 2019-04

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

مرکزخنثی سازی ماین ها
پروگرام ماین پاکی ملل متحد
برای افغانستان

AFGHANISTAN
MINE DETECTION CENTER
SINCE 1989

دماینونو دشندولو مرکز
دافغانستان لپاره د ملگرو ملتونو
د ماین پاکولو پروگرام

Finding 2019-01: Unsupported Allocation of Payroll Cost:

MDC management agree with the auditors' observation and recommendation that why the PMWRA-15-GR-1064 has not been mentioned on the timesheet. MDC understands the importance of compliance with **OMB** and federal regulations. 2 CFR § 200.430.

Based on the MDC payroll procedures the printed/ signed payrolls for the mentioned grant has the grant number (PMWRA-15-GR-1064) and these signed payrolls are available at MDC HQ and will be forwarded to PMWRA.

MDC is committed to further improve its review and supervision to ovoid such issue in the future.

Finding 2019-02: Incorrect Calculation of Meals and Hazardous Allowances:
MDC Management agree with the auditor's observation and recommendation about this finding.
The supervisory review over the calculation of meals and hazardous allowance is the top issue for MDC and the organization is enhancing its procedure to ovoid such issues in the future.

Finding 2019-03: Failure to Withhold Employee Income Tax:
MDC management agree about the findings of auditor's. We had this problem till the end of 2015 after that the problem has been solved and MDC fixed its system and withhold taxes from meals and hazardous allowances.

The taxed clearance certificates issued by the ministry of finance are available that shows MDC has paid all taxes during the mentioned years.

MDC confirms that all payment in regard to the taxes for the mentioned 3 grant have been paid to ministry of finance and in the future the 10 instances not billed to or refunded by the PMWRA.

Finding 2019-04: Unsupported Non-Labor Costs
The observation and recommendation of auditors is appreciated. As it is mentioned in Finding 2019-07: Omitted General Ledger Transaction ,this amount (17,291) is not a questioned cost.

The auditors' observation was that no invoice provided 1/157 $7000.00 :
As you are in the picture the grant S-PMWRA-13-GR-1011 has been cost amended for

Supported by:

LANDMINE FREE 2025

GICHD

MDC HEAD QUARTER

West of maranjan hill, Opposite of Kabul- Electricity Office, Kabul – Afghanistan
Emails: info@mdcafghan.org , mdcafghann@gmail.com
Facebook: minedetecioncenter
Cell: + 93 (0) 700 801 474, + 93 (0) 768 800 900

several time, the audit fee has been budgeted and charged as other commandment during the 3 phases of the grant.
After the grant has been completed it was financially audited and the accumulated amount of 3 JVs (JV-USDOS-1011 SANG-USD-(08 -09)-9-008 , JV-USDOS-1011 SANG-USD-2017-3-Com-01 and V-USDOS-1011 SANG-USD-(08 -09)-12-ADJ002) was paid as audit fee to auditor by PV USDOS-1011-USD-18-7-01 the scanned copies of the mentioned JVs and PV were forwarded for to auditors consideration.

The auditors' observation was that the provided invoice date does not much GL date 1/157 $12,500.00. The invoice with corrected date has been forwarded for auditors' consideration.

The observation is appreciated:

That there was no Goods Received Note, no purchase order was provided ,there was no purchase request form provided ,the invoices did not list MDC as the payee , no sequential number on purchase order, no sequential number on the Goods and Services Supply Requisition no paid stamp on purchase invoice.

MDC is a multi-donor organization it is audited every year by different auditors and most of documents related to 2013 and 2014 were misplaced during the many audits in prior years.
MDC do it is best to fined the source documents and provide them to PMWRA.

Finding 2019-05: Failure to Submit Timely Financial Reports

The auditors' observations and recommendation is appreciated about MDC's controls over document retention were not sufficient to ensure that evidence of submission was maintained as required by 200 CFR §200.333 *Retention requirements for records*.
MDC has submitted the most of SF-425 forms on time as MDC could not receive its next advance without submitting the forms. Sometimes MDC had to resubmit the forms due to the PMS' technical problems but in some cases we agree with auditors' observation. The SF-425 forms were submitted late.
MDC is committed to further improve the required financial reports are prepared and submitted accurately, completely, and timely as required by 200 CFR §200.333 *Retention requirements for records.*

Finding 2019-06: Non-Compliance with Afghan Tax Law:
MDC management agree about the findings of auditor's. MDC had this problem till the end of 2015 after that the problem has been solved and MDC fixed its system and withhold taxes from suppliers according to Afghanistan Tax Law.

The taxed clearance certificates issued by the ministry of finance are available that shows MDC has paid all taxes according to Afghanistan Tax Law during the mentioned years.

MDC confirms that all payment in regard to the taxes for the mentioned 3 grant have been paid to ministry of finance and in the future the 10 instances not billed to or refunded by the PMWRA.

Finding 2019-07: Omitted General Ledger Transaction:

We agree with observation and recommendation of auditor's. MDC is committed to retrain it is staff on reversing entries rather than removing them, and proper supervisory review.

Finding 2019-08: Lack of Proper Segregation of Duties Over Inventory:

The auditor's observation is appreciated in this regard. MDC understands the importance of proper segregation of duties for physical inventory counts, maintenance of inventory records, disposal of inventory items, and recordation of inventory balances in the general ledger.

MDC has revised it is procedures in this regard. The Procurement Assistant completes these four tasks after the approval of senior logistic manager and the MDC deputy director.

Finding 2019-09 Incorrect Application of the De Minimis Rate:

MDC management is not agree about indirect cost calculation by auditors for grant SPWRA17GR1049. The indirect cost has been charged to the grant based on grant approval.

Table#1 shows the grant approved budget by PM/WRA

Budget Categories	Amount	Amended	Total
1. Personnel	$231,480.00	-	$231,480.00
2. Fringe Benefits	$151,212.00	-	$151,212.00
3. Travel	$3,460.00	-	$3,460.00
4. Equipment	$14,717.00	-	$14,717.00
5. Supplies	$31,676.00	-	$31,676.00
6. Contractual	$0.00	-	$0.00
7. Construction	$0.00	-	$0.00
8. Other Direct Costs	$103,641.00	-	$103,641.00
9. Total Direct Costs (lines 1-8)	$536,186.00	-	$536,186.00
10. Indirect Costs (reflect provisional, pre-determined rate and allocation base)	$53,619.00	-	$53,619.00
11. Total Costs (lines 9-10)	$589,805	-	$589,805
12. Cost-Sharing	N/A	-	N/A

MDC management is not agree about indirect cost calculation by the auditors for the grant SPMWRA13GR 1011 based on the following reasons:

MDC has forwarded to auditors the approved grant budget for the period of 1st April 2013 and ended 31st March 2014 (total direct cost 880,000.00 and total indirect cost 120,000.00) and for the other period as well and the total indirect charges in the final budget worksheet for this grant is 282,597.54. and the MDC actual indirect costs is 295,943 The indirect costs overcharged for this grant is 13,345.50.

This amount (13,345.50.) has been charged based on very urgent needs of MDC.

Table table#2 shows the final budget worksheet for this project.

TAB_NAME	DRAFT_NAME	CATEGORY	AOS CATEGORY	TOTAL	AWARD_GRANT_NUMBER	AWARD_SEQUENCE
Totals	Initial	Other	Trainee Stipends	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Other	Outpatient Care	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Fringe	Fringe Benefits	362,111.91	S-PMWRA-13-GR-1011	8
Totals	Initial	Equipment	Equipment	35,618.82	S-PMWRA-13-GR-1011	8
Totals	Initial	Contractual	Contractual	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Supplies	Supplies	140,358.10	S-PMWRA-13-GR-1011	8
Totals	Initial	Personnel	Salaries And Wages	1,264,516.54	S-PMWRA-13-GR-1011	8
Totals	Initial	INDIRECT	Indirect Costs	282,597.54	S-PMWRA-13-GR-1011	8
Totals	Initial	Other	Trainee Tuition and Fees	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Construction	Alterations and Renovations	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Travel	Trainee Travel	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Other	Inpatient Care	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Other	Consultants	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Other	Other	694,271.46	S-PMWRA-13-GR-1011	8
Totals	Initial	Travel	Travel	204,525.63	S-PMWRA-13-GR-1011	8
Totals	Initial	Other	Trainee Related Expenses	-	S-PMWRA-13-GR-1011	8
Totals	Initial	Construction	Construction	-	S-PMWRA-13-GR-1011	8

MDC management is not agree about indirect cost calculation by auditors for the grant SPMWRA15GR1064 based on the following reasons:

The indirect cost has been charged to the grant based on grant approval.

Please see table#3

Budget Categories	Amount	Amended	Total
1. Personnel			811,108.41
2. Fringe Benefits			395,790.33
3. Travel			37,250.30
4. Equipment			35,284.18
5. Supplies			108,324.91
6. Contractual			
7. Construction			
8. Other Direct Costs			280,890.10
9. Total Direct Costs (lines 1-8)			1,668,648.23
10. Indirect Costs (reflect provisional, pre-determined rate and allocation base)			163,400.77
11. Total Costs (lines 9-10)			1,832,049.00
12. Cost-Sharing			0

As of November 14th 2016 MDC has completed the contacted target area and The final project's financial report showed a total amount US$.112,926.45 unspent allocation/saving.

From November 15th 2016 to December 14th 2016 MDC had no cost extension/ budget revision approved by PMWRA and MDC has budgeted 10,266 as indirect cost.

Table #4 shows the grant financial position as of November 14th 2016

Account Code	Description	Budget Allocation Per Contract/ Agreement	Cumulative Total to Date Actual	Unpermited & Uspent Allocations	% Used Buget
A	Personnel Cost	826,734.00	778,602.60	48,131.40	5.8%
B	Fringe Benefit	403,417.00	386,526.64	16,890.36	4.2%
C	Travel	2,070.00	3,679.81	- 1,609.81	-77.8%
D	Equipment	35,964.00	35,858.69	105.31	0.3%
E	Supplies	110,410.00	117,907.30	- 7,497.30	-6.8%
F	Contractual	-		-	
G	Construction	-		-	
H	Other	286,903.00	230,012.48	56,890.52	19.8%
J	Indirect Cost	166,550.00	166,534.03	15.97	0.0%
	UNSPENT BALANCE OF FUNDS (A-B)	1,832,048.00	1,719,121.55	112,926.45	6.2%

Closing balance at end of period (**)	112,926.45
Total Cash on hand/ARL	112,926.45

Table# 5: Shows the summary of the project assets and the required funds from Nov 15th – Dec 14th 2016 which was approved by PMWRA as no cost extension and has been forwarded to auditor's consideration.
Table # 5 Shows the no cost extension amendment budget.

S/N	Type	Number	Months	Cost	Productivity	US$/Cost/sqm
1	DT	8	1	86,246	152,040 sqm	
2	MRE	1	1	1,750	1700 people	
3	F.O	1	1	8,173		
	EQUIPMENT					
	OH Admin	1	1	10,266		
	OTHER COSTS	1	1	6,491		
Total				112,926		

The indirect charges for the mentioned project has been budgeted as follow:
Approved grant budget for indirect cost (please see the table#1) 166,550.00.No cost amendment/budget revision 10,266.00. 166,550.00 +10,266.00 =176,816.00 is the total allowed indirect cost approved by PMWRA for this project.

Finding 2019-10: Unapproved Transfer Among Budget Lines:

MDC Management appreciates the observation and recommendation of auditor's in this regards and we agree that the budget lines for food allowance and insurance premium in the financial statement for grant number SPMWRA13GR1011 were reported under fringe benefits category based on the following reasons.
If you look at the grant funding history this grant has been amended four times during the 4 years grant period.
Based on proposal submission template provided by PM/WRA MDC submitted the proposal with budget line item for the mentioned grant for the period of April 1st 2013 to March 31st 2014 where the insurance premium was budgeted under personnel cost category and food allowance was budgeted under the travel category and the approved grant budget by PM/WRA has been forwarded to auditors.

On April 7th 2014 MDC has received instruction from **Grants Officer PM/WRA** in regard the food allowance and insurance premium should be budgeted under the Fringe Benefits category. Table# 6 shows the instruction for proposal revision submission.

Document ID **PMWRA002**	Title **Instructions for Full Proposals**	Print Date **04/07/2014**
Revision **2.0**	Prepared By **Thomas Kodiak / Grants Officer PM/WRA**	Date Prepared **04/07/2014**
Effective Date: **4/7/2014**	Approved By **Jerry Guilbert / Resource Management Chief, PM/WRA**	Date Approved **04/07/2014**

This situation confused MDC how to report (under which category) food allowance and life insurance premium.

From other hand MDC did not receive the final budget worksheet from PMWRA timely through the grantsolutions.gov and SAMS domisticts and we thought that food allowances and life insurance premiums were budgeted under the Fringe Benefits Category for the period April 1, 2013 to March 31, 2017. Therefore, in the previous grant's award period we reported those costs as Fringe Benefits. It was not until we received the final budget worksheet that we realized food allowances and life insurance premiums budget lines were not budgeted under Fringe Benefits for the duration of the grant. Knowing this reality MDC has revised the final grant GL, food allowances and life insurance premiums budget lines were reported as they were initially budgeted.

MDC is committed to train staff on the requirements for budget line item transfers to ensure compliance with OMB Circular A-110 and the PMWRA 10% Rule.

NAME: ABDUL WAHID LEWAL

Date: August 12th 2020

Title: Executive Projects & Finance Manager
MDC

Appendix B – Auditor's Response to Management Comments

Williams, Adley & Company-DC, LLP (Williams Adley or auditor) has reviewed the letter dated August 12, 2020 containing the Mine Detection Dog Center's (MDC's) responses to the draft audit report. In consideration of those views, we have included the following rebuttal to certain matters presented by the auditee for each of the findings except 2019-08. Because MDC agreed with finding 2019-08, and has already implemented corrective action, we have not included a rebuttal for the response to that finding. Williams Adley did not deem it necessary to modify any of the questioned costs in the report based on our review of management's comments.

Finding 2019-01: Unsupported Allocation of Payroll Cost
MDC agrees with this finding and states that printed and signed payroll information in support of grant PMWRA-15-GR-064 is available at MDC headquarters and will be forwarded to PMWRA.

Finding 2019-02: Incorrect Calculation of Meals and Hazardous Allowances
MDC agrees with this finding and indicates that it is enhancing its procedures. However, MDC does not indicate how it will improve supervisory review over the calculation of meals and hazardous allowances to avoid such instances in the future. Also, MDC does not state whether it will refund PMWRA for the $388 in questioned costs.

Finding 2019-03: Failure to Withhold Employee Income Tax
MDC agrees with this finding and asserts that the matter was resolved in 2015. MDC confirms that it has made all tax payments to the Ministry of Finance related to the three grants in question but did not provide Williams Adley with the certificates proving proof of tax payment.

Finding 2019-04: Unsupported Non-Labor Costs
MDC asserts that documentation to support two of the amounts in question has been provided to the auditor, but Williams Adley has no record of such documentation. For the remaining amounts in question MDC stated that it will "…do its best to find the source documents and provide them to PMWRA."

Finding 2019-05: Failure to Submit Timely Financial Reports
MDC agrees with the finding and acknowledges that in some instances it submitted the SF-425 late and in other instances it had to resubmit forms due to technical problems with the Payment Management System. Also, MDC stated that it was committed to improving the timely and accurate submission of financial reports in accordance with federal requirements but did not specify how it would enhance its procedures.

Finding 2019-06: Non-Compliance with Afghan Tax Law
MDC agrees with the finding and asserts that the matter was resolved in 2015. MDC confirms that it has made all tax payments to the Ministry of Finance related to the three grants in question but did not provide Williams Adley with the certificates proving proof of tax payment. Williams Adley maintains that MDC does not have proper controls in place to ensure compliance with Afghan tax law.

Finding 2019-07: Omitted General Ledger Transaction
MDC agrees with this finding but does not indicate how it will enhance its training and supervisory review procedures.

Finding 2019-09: Incorrect Application of the De Minimis Rate
MDC management disagrees with the finding and argues that indirect costs were charged to the grants based upon grant approval. MDC included in its response several tables that provided the approved budgets for grant numbers SPMWRA17GR1049, SPMWRA13GR1011, and SPMWRA15GR1064.

While Williams Adley acknowledges the budget detail information provided in MDC's response, sufficient audit evidence was not presented to the auditor to substantiate charging indirect costs in excess of the de minimis rate for the grants in question.

- For grant SPMWRA17GR1049, MDC management stated that it did not agree with the indirect cost calculation by the auditors but did not explain why it did not agree or provide supporting evidence to dispute the auditor's calculation.

- For grant SPMWRA13GR1011, MDC acknowledged that it overcharged the grant for indirect costs in the amount of $13,345.50, stating that the overcharge was "…based on very urgent needs of MDC." The auditee, however, did not provide the auditor with evidence to support the urgent need or demonstrate that PMWRA had approved the budget overage.

- For grant SPMWRA15GR1064, MDC argued that the grant had unspent funds as of November 14, 2016 and that PMWRA approved a no cost extension and budget revision that included a revised indirect cost budget of $176,816. However, the auditor was not provided with documentation to support the revised budget as approved by PMWRA.

Without sufficient documentation to refute the auditor's conclusion that indirect costs exceeded the de minimis amount, or to demonstrate approval by PMWRA to exceed the indirect cost amount for a grant, the finding and recommendations remain unchanged.

Finding 2019-10: Unapproved Transfer Among Budget Lines
MDC agrees with this finding and acknowledges confusion related to how it should report food allowances and life insurance premiums based on instruction from PMWRA, and challenges related to delayed receipt of the final budget worksheet from PMWRA. MDC states that it revised the final grant GL so that food allowances and life insurance premiums could be reported as initially budgeted. MDC committed to training its staff on the requirements for budget line item transfers to ensure compliance with federal regulations and the PMWRA 10% Rule, but did not specify how it would enhance its procedures.

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

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

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

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

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

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
  2530 Crystal Drive
  Arlington, VA 22202