

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-36 Financial Audit

USAID's Afghan Civic Engagement Program: Audit of Costs Incurred by Counterpart International Inc.

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



JUNE
2021

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On December 4, 2013, the U.S. Agency for International Development (USAID) awarded a \$70 million cooperative agreement to Counterpart International Inc. (Counterpart), to support the Promoting Afghan Civic Engagement program; the name of the program was later changed to the Afghan Civic Engagement program through a modification. The program's objective was to promote Afghan civil society and media engagement to influence public policy, government accountability, and political reform. After 18 modifications, the agreement's total funding increased to \$79,120,000, and the period of performance was extended from December 3, 2018, through February 15, 2020. The original agreement also included a cost share component requiring Counterpoint to provide \$2,461,116 for the program; subsequent modifications to the agreement decreased the cost share to \$2,389,495.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr) reviewed \$13,270,330 in costs charged to the agreement, and \$731,781 in Counterpart's shared costs from October 1, 2018, through February 15, 2020. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in Counterpart's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether Counterpart has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of Counterpart's Special Purpose Financial Statement (SPFS). See Davis Farr'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 work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards.

June 2021

USAID's Afghan Civic Engagement Program: Audit of Costs Incurred by Counterpart International Inc.

SIGAR 21-36-FA

WHAT SIGAR FOUND

Davis Farr identified three significant deficiencies in Counterpart's internal controls, and three instances of noncompliance with the terms of the agreement. For example, the auditors found that Counterpart's financial statement included seven contractual transactions outside of the audit period that were noncompliant with federal regulations and Counterpart's procedures. As result, the auditors identified \$65,744 in questioned costs. The auditors also found that Counterpart did not provide any documentation showing that \$585,313 in reported cost-sharing contributions were spent on allowable goods or services.

Because of the significant deficiencies in internal controls and instances of noncompliance, Davis Farr identified \$630,418 in total questioned costs, consisting of \$564,674 unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$65,744 ineligible costs—costs prohibited by the agreement and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Contractual	\$64,620	\$0	\$64,620
Indirect Costs	\$1,124	\$0	\$1,124
Cost Share	\$0	\$564,674	\$564,674
Total Costs	\$65,744	\$564,674	\$630,418

Davis Farr identified six prior audit reports that were relevant to Counterpart's agreement. The reports did not have findings that could have a material effect on the SPFS and other financial data that are significant to this audit's objectives.

Davis Farr issued a modified opinion on Counterpart's SPFS because of material questioned costs identified during this audit.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$630,418 in questioned costs identified in the report.
2. Advise Counterpart to address the report's three internal control findings.
3. Advise Counterpart to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 8, 2021

The Honorable Samantha Power
Administrator, U.S. Agency for International Development

Dr. Tina Dooley-Jones
USAID Mission Director for Afghanistan

SIGAR contracted with by Davis Farr LLP (Davis Farr) to audit the costs incurred by Counterpart International Inc. (Counterpart) under a cooperative agreement from the U.S. Agency for International Development (USAID) to support the Afghan Civic Engagement program.¹ The program's objective was to promote Afghan civil society and media engagement to influence public policy, government accountability, and political reform. Davis Farr reviewed \$13,270,330 in costs charged to the agreement, and \$731,781 in Counterpart's shared costs from October 1, 2018, through February 15, 2020. Our contract with Davis Farr required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$630,418 in questioned costs identified in the report.**
- 2. Advise Counterpart to address the report's three internal control findings.**
- 3. Advise Counterpart to address the report's three noncompliance findings.**

Davis Farr discusses the results of the audit in detail in the attached report. We reviewed Davis Farr'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 Counterpart's Special Purpose Financial Statement. We also express no opinion on the effectiveness of Counterpart's internal control or compliance with the agreement, laws, and regulations. Davis Farr is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Davis Farr 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 planned completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-185)

¹ The agreement number is AID-306-A-14-00001.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

For the Period October 1, 2018 through February 15, 2020

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-A-14-00001 Afghan Civic Engagement Program (ACEP)

For the Period October 1, 2018 through February 15, 2020

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February 12, 2021

Enclosed is the final report on the financial audit of costs incurred by Counterpart International, Inc. (Counterpart) under Cooperative Agreement No. AID-306-A-14-00001 with the United States Agency for International Development (USAID) for the Afghan Civic Engagement Program (ACEP). The audit covers the period October 1, 2018 through February 15, 2020.

Included within the final report is a summary of the work performed, our report on the Special Purpose Financial Statement, report on internal control and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback and interpretations from Counterpart, the Special Inspector General for Afghanistan Reconstruction and USAID. Management of Counterpart has prepared responses to the findings identified during our audit and those responses are included as part of this report. The responses have not been audited and we express no opinion on them.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA
Partner

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-A-14-00001 Afghan Civic Engagement Program (ACEP)

For the Period October 1, 2018 through February 15, 2020

Background

On December 4, 2013, the United States Agency for International Development (USAID) awarded Cooperative Agreement No. AID-306-A-14-00001 (Agreement) to Counterpart International Inc. (Counterpart) to support the Promoting Afghan Civic Education (PACE) Program. Modification No. 8 changed the program name to the Afghan Civic Engagement Program (ACEP). The objective of the program was to promote Afghan civil society and media engagement that enabled Afghan citizens to influence public policy, monitor government accountability, and serve as advocates for political reform. This was achieved through:

- (1) Creating a cross-program area effort to involve more civil society organizations (CSOs) in effective policy advocacy that includes organizational and technical sector capacity building, network development, research and material presentation, opportunistic advocacy actions and prolonged policy campaigns;
- (2) Supporting anti-corruption and government oversight activities that utilize traditional media and the anonymity of social media to educate citizens against corruption, advocate for good governance and expose corrupt practices;
- (3) Providing media support and strengthening services that increase sustainability and quality of content in the sector, increase journalist technical knowledge and support CSOs with outreach;
- (4) Delivering civic education in communities through resident activities with the support of regional and provincial CSOs and responding to electoral needs with flexible voter education and get-out-the-vote grants; and
- (5) Building and sustaining the capacity of 14 lead and at least 34 CSOs through an enhanced CSO strengthening tool-kit, including tiered certification.

The Agreement was awarded in the original ceiling amount of \$70,000,000 plus \$2,461,116 in cost share for the period of performance from December 4, 2013 through December 3, 2018. After 18 modifications to the agreement, the total funding increased to \$79,120,000 plus \$2,389,495 in cost share and the period of performance extended from December 3, 2018, through February 15, 2020.

Our audit procedures reviewed \$13,270,330 of total costs incurred plus \$731,781 in cost share for the period October 1, 2018, through February 15, 2020.

Work Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of Counterpart's Special Purpose Financial Statement (SPFS) for the period from October 1, 2018, through February 15, 2020. Total costs incurred as reported by Counterpart was \$13,270,330 plus \$731,781 in cost share.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

For the Period October 1, 2018 through February 15, 2020

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion as to whether Counterpart’s SPFS for the Agreement presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the Agreement and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of Counterpart’s **internal** control related to the Agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether Counterpart complied, in all material respects, with the Agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether Counterpart 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 scope of this audit covers \$13,270,330 in total costs incurred and \$731,781 in cost share for the period October 1, 2018 through February 15, 2020. The period of performance of the agreement is complete, and this represents a closeout audit of the Agreement. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the rates identified in the Negotiated Indirect Cost Rate Agreement (NICRA) approved by USAID.

Methodology

To accomplish the objectives of this audit, we designed our audit procedures to include the following:

Entrance Conference

An entrance conference was held via conference call on May 12, 2020. Participants included representatives of Davis Farr, Counterpart, SIGAR and the USAID.

Planning

During our planning phase, we performed the following:

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-A-14-00001 Afghan Civic Engagement Program (ACEP)

For the Period October 1, 2018 through February 15, 2020

- Obtained an understanding of Counterpart;
- Reviewed the Agreement and all modifications to date;
- Reviewed sections of the Code of Federal Regulations (CFR) and the USAID Acquisition Regulation (AIDAR), as applicable to the Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high, moderate or low risk for inclusion in our test of transactions. All samples were selected on a judgmental basis. Our sampling methodology was as follows:
 - For accounts that appear to contain unallowable and restricted items according to the terms of the Agreement, 2 CFR Part 200, AIDAR and any other applicable regulations, we sampled 100% of the transactions.
 - For high risk cost categories, we sampled transactions greater than \$67,100, and additional transactions below \$67,100 to ensure that at least 50% of the total amount expended for each cost category was sampled.
 - For moderate risk categories, we sampled transactions that are greater than \$134,200, and additional transactions below \$134,200 to ensure at least 20% of the total amount expended for each cost category was sampled.
 - For low risk categories, we sampled transactions to ensure at least 10% of the costs for each low risk cost category was sampled. No sample was selected for indirect costs as we tested the proper application of indirect cost rates. This included reviewing the NICRA to ensure that Counterpart's **indirect costs did not exceed the approved rates.**

Internal Control Related to the SPFS

We reviewed Counterpart's internal control related to the SPFS. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. We corroborated internal control identified by Counterpart and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Agreement and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-A-14-00001 Afghan Civic Engagement Program (ACEP)

For the Period October 1, 2018 through February 15, 2020

procedures to test a sample of transactions to ensure compliance with the Agreement requirements and laws and regulations.

Corrective Action on Prior Findings and Recommendations

We reached out to SIGAR, Counterpart and USAID and requested all reports from previous engagements, as well as searched publicly available information for other reports, in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Agreement, modifications and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement and reasonable. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Partner as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Exit Conference

An exit conference was held on November 12, 2020 via conference call. Participants included representatives from Davis Farr, Counterpart, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by Counterpart under the Agreement with USAID identified the following matters. Findings are classified as either 1) internal control, 2) noncompliance, or 3) a combination of internal control and noncompliance.

Auditor's Opinion on SPFS

We issued a modified opinion on the fairness of the presentation of the SPFS because of the identified \$630,421 of questioned costs. A summary of findings and questioned costs is described in the next section.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

For the Period October 1, 2018 through February 15, 2020

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Costs
2020-01	Internal control – significant deficiency Noncompliance	Costs incurred outside of SPFS period	\$65,744	\$65,744
2020-02	Internal control – significant deficiency Noncompliance	Unsupported cost share	\$564,674	\$630,418
2020-03	Internal control – significant deficiency Noncompliance	Misclassification of expenses	\$0	\$630,418

Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered Counterpart's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed three internal control weaknesses required to be reported under *Government Auditing Standards*. See Independent Auditor's Report on Internal Control on page 14.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed three instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 16.

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

Review of Prior Findings and Recommendations

We requested from Counterpart, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to Counterpart's activities under the Agreement. We reviewed six prior reports, consisting of four annual financial audits, including audits

COUNTERPART INTERNATIONAL, INC.

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For the Period October 1, 2018 through February 15, 2020

of federal programs in accordance with Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and two financial audits of the ACEP program performed by independent certified public accounting firms on behalf of USAID. We did not identify any findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives.

Summary of Counterpart's Responses

The following represents a summary of the responses provided by Counterpart to the findings identified in this report. The complete responses received can be found in Appendix A to this report. In addition to this response, Counterpart provided documentation that supports its position on the findings. Due to the voluminous and proprietary nature of this documentation, it has not been included within this report. The documentation has been provided to SIGAR under separate cover.

- Finding 2020-01: Counterpart disagreed with this finding indicating that the costs, while incurred prior to October 1, 2018, were properly reported on the SPFS.
- Finding 2020-02: Counterpart disagreed with this finding indicating the cost share was incurred and allowable.
- Finding 2020-03: Counterpart agreed with this finding, but disagreed with its characterization as a significant deficiency.

References to Appendices

The auditor's reports are supplemented by two appendices, Appendix A, which contains management's responses to the audit findings and Appendix B, which contains the auditor's rebuttal to management's comments.

INDEPENDENT AUDITOR'S REPORT
ON SPECIAL PURPOSE FINANCIAL STATEMENT

Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Counterpart International, Inc. (Counterpart) under Cooperative Agreement No. AID-306-A-14-00001 (Agreement) with the United States Agency for International Development (USAID) to support the Afghan Civic Engagement Program (ACEP) for the period October 1, 2018 through February 15, 2020, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on **the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error.** In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing **an opinion on the effectiveness of the entity's internal control.** Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies

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

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

We identified \$630,421 of questioned costs, consisting of \$65,744 in incurred costs, and \$564,674 in cost share that were material to the Special Purpose Financial Statement. The questioned costs were due to costs incurred outside of the period covered by the Special Purpose Financial Statement, as well as unsupported cost share.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by Counterpart under the Agreement for the period October 1, 2018 through February 15, 2020 in accordance with the basis of accounting described in Note 2.

Restriction on Use

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 12, 2021 on our consideration of Counterpart's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purposes of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Counterpart's internal control over financial reporting and compliance.

Dawn Farnell

Irvine, California
February 12, 2021

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Special Purpose Financial Statement

For the Period October 1, 2018 through February 15, 2020

	Budget	Expenditures	Questioned Costs		Total	Notes
			Ineligible	Unsupported		
Revenues:						
AID-306-A-14-00001	\$ 79,120,000	\$ 13,270,330	\$ -	\$ -	\$ -	(3)
Total revenues	79,120,000	13,270,330	-	-	-	
Costs incurred:						
Personnel	11,671,003	2,290,698	-	-	-	
Fringe benefits	3,176,009	1,035,299	-	-	-	
Travel	966,827	265,871	-	-	-	
Equipment	34,680	(5,116)	-	-	-	
Supplies	654,271	120,879	-	-	-	
Contractual	43,488,659	5,842,681	64,620	-	64,620	(A)
Other costs	8,317,594	1,612,479	-	-	-	
Indirect costs	10,810,957	2,107,539	1,124	-	1,124	(4), (B)
Total costs incurred	79,120,000	13,270,330	65,744	-	65,744	
Outstanding fund balance	\$ -	\$ -	\$ (65,744)	\$ -	\$ (65,744)	(5), (C), (E)
Cost share	\$ 2,389,495	\$ 731,781	\$ -	\$ 564,674	\$ 564,674	(D), (E)

See Notes to Special Purpose Financial Statement
and Notes to Questioned Costs Presented on the Special Purpose Financial Statement

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-A-14-00001 Afghan Civic Engagement Program (ACEP)

Notes to Special Purpose Financial Statement¹

For the Period October 1, 2018 through February 15, 2020

(1) Background

On December 4, 2013, the United States Agency for International Development (USAID) awarded Cooperative Agreement No. AID-306-A-14-00001 (Agreement) to Counterpart International Inc. (Counterpart) to support the Promoting Afghan Civic Education (PACE) Program. Modification No. 8 changed the program name to the Afghan Civic Engagement Program (ACEP). The objective of the program was to promote Afghan civil society and media engagement that enabled Afghan citizens to influence public policy, monitor government accountability, and serve as advocates for political reform. This was achieved through:

- (1) Creating a cross-program area effort to invoice more civil society organizations (CSOs) in effective policy advocacy that includes organizational and technical sector capacity building, network development, research and material presentation, opportunistic advocacy actions and prolonged policy campaigns;
- (2) Supporting anti-corruption and government oversight activities that utilize traditional media and the anonymity of social media to educate citizens against corruption, advocate for good governance and expose corrupt practices;
- (3) Providing media support and strengthening services that increase sustainability and quality of content in the sector, increase journalist technical knowledge and support CSOs with outreach;
- (4) Delivering civic education in communities through resident activities with the support of regional and provincial CSOs and responding to electoral needs with flexible voter education and get-out-the-vote grants; and
- (5) Building and sustaining the capacity of 14 lead and at least 34 CSOs through an enhanced CSO strengthening tool-kit, including tiered certification.

The Agreement was awarded in the original ceiling amount of \$70,000,000 plus \$2,461,116 in cost share for the period of performance from December 4, 2013 through December 3, 2018. The Agreement was modified 18 times for reasons related to the modification of the project description and Agreement clauses, extensions to the period of sub-agreement, and revisions to the budget. Modification 13 included the final revision to the budget and increased the total estimated amount of the award. Modification 18 made the final extension to the period of performance from December 3, 2018 to February 15, 2020. After the modifications, the Agreement ceiling amount was increased to \$79,120,000 plus \$2,389,495 in cost share.

¹ The Notes to the Special Purpose Financial Statement with a numeric identifier are the responsibility of Counterpart.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-A-14-00001 Afghan Civic Engagement Program (ACEP)

Notes to Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for ACEP for the period October 1, 2018 through February 15, 2020. Because the SPFS presents only a selected portion of the operations of Counterpart, it is not intended to and does not present the financial position, changes in financial position, or cash flows of Counterpart. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Agreement.

Basis of Accounting

Revenues and expenses on the SPFS are reported on the accrual basis of accounting. Revenues are recognized when earned. Expenses are recognized following the cost principles contained in 2 CFR 200 Subpart E, wherein certain types of expenses are not allowable or are limited as to reimbursement.

Currency

The SPFS is presented in U.S. dollars. Counterpart converts any expenses that were paid in Afghanis into U.S. dollars by using the last actual conversion rate for transfers made to move funds between the U.S. dollar account and the Afghani account.

(3) Revenue

Counterpart reported revenue in the amount of \$13,349,286 for the period October 1, 2018 through February 15, 2020. This revenue represented the remaining unrecognized revenue under the Agreement.

(4) Indirect Costs

Counterpart's indirect costs were reviewed and approved by USAID in a Negotiated Indirect Cost Rate Agreement (NICRA) dated June 9, 2020. The following indirect cost rates were applicable to the Agreement:

<u>Effective Period</u>	<u>Type</u>	<u>Management and General (a)</u>	<u>Sub-Handling (b)</u>
10/1/18 – 9/30/19	Final	28.95%	1.74%
10/1/19 until amended	Provisional	37.00%	5.85%

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Notes to Special Purpose Financial Statement

(Continued)

(4) Indirect Costs (Continued)

Base of Application:

- (a) Total costs (including sub-handling costs), excluding management and general expenses, in-kind contributions (i.e., donated services, equipment and supplies), subcontracts, subgrants, and pass-through costs
- (b) Total subcontract and subgrant cost

(5) Outstanding Fund Balance

As of February 15, 2020, there was no outstanding fund balance under the Agreement as the SPFS is prepared under the accrual basis of accounting described in Note 2.

(6) Budget

The Budget as represented on the SPFS is the budget for the Agreement as a whole. The budget is not broken down into the period covered by the SPFS, which is October 1, 2018 through February 15, 2020.

(7) Subsequent Events

Counterpart has evaluated subsequent events through February 12, 2021, which is the date the SPFS was available to be issued. On June 9, 2020, Counterpart received a new NICRA that finalized the indirect cost rates for the period October 1, 2018 through September 30, 2019, and established provisional rates from October 1, 2019 until amended. These updated final and provisional rates have been reflected in the SPFS.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. AID-306-A-14-00001 Afghan Civic Engagement Program (ACEP)

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

For the Period October 1, 2018 through February 15, 2020

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable, prohibited by the Agreement, prohibited by applicable laws and regulations, or not Agreement related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

(A) Contractual

Counterpart reported contractual costs in the amount of \$5,842,681 for the period October 1, 2018 through February 15, 2020. During our audit of these costs, we identified \$64,620 of costs that were incurred prior to October 1, 2018. See Finding No. 2020-01.

(B) Indirect Costs

Counterpart reported indirect costs in the amount of \$2,107,539 for the period October 1, 2018 through February 15, 2020. The indirect cost rates described in Note 4 of the Notes to Special Purpose Financial Statement were applied to the associated questioned costs identified in Note A, which resulted in questioned (ineligible) indirect costs of \$1,127.

(C) Outstanding Fund Balance

The total outstanding fund balance as of February 15, 2020 in the amount of \$(65,744) represents the total questioned ineligible costs of \$65,744.

(D) Cost Share

Counterpart reported cost share in the amount of \$731,781. During our audit of these costs, we identified \$564,674 of costs that were deemed unsupported. See Finding No. 2020-02.

(E) Total Questioned Costs

Total questioned costs are comprised of the following:

Ineligible contractual costs	\$ 64,620
Associated ineligible indirect costs	1,124
Unsupported cost share	<u>564,674</u>
Total questioned costs	<u>\$630,418</u>

² The Notes to Questioned Costs presented on the Special Purpose Financial Statement with an alphabetical identifier were prepared by Davis Farr LLP for information purposes only and as such are not a part of the audited Special Purpose Financial Statement.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Counterpart International, Inc. (Counterpart) under Cooperative Agreement No. AID-306-A-14-00001 (Agreement) with the United States Agency for International Development (USAID) to support the Afghan Civic Engagement Program (ACEP) for the period October 1, 2018 through February 15, 2020, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 12, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered Counterpart's internal control over financial reporting (internal control) to determine the audit procedures that were appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of Counterpart's **internal control**. **Accordingly, we do not express an opinion on the effectiveness of Counterpart's internal control.**

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

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

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified three deficiencies in internal control, described in the accompanying Detailed Audit Findings as Finding Numbers 2020-01, 2020-02 and 2020-03 that we consider to be significant deficiencies.

Counterpart's Response to Findings

Counterpart's response to the findings identified in our audit is included verbatim in Appendix A. Counterpart'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 internal control and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards in considering the entity's internal control*. Accordingly, this communication is not suitable for any other purpose.

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

Dawn Fann LLP

Irvine, California
February 12, 2021

REPORT ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Counterpart International, Inc. (Counterpart) under Cooperative Agreement No. AID-306-A-14-00001 (Agreement) with the United States Agency for International Development (USAID) to support the Afghan Civic Engagement Program (ACEP) for the period October 1, 2018 through February 15, 2020, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 12, 2021.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Counterpart's **Special Purpose** Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and the aforementioned Agreement, noncompliance with which could have a direct and material effect on the determination of Special Purpose Financial Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed three instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Detailed Audit Findings as Finding Numbers 2020-01, 2020-02 and 2020-03.

Counterpart International, Inc.
2345 Crystal Drive, Suite 301
Arlington, Virginia 22202

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

Counterpart's Response to Findings

Counterpart's response to the findings identified in our audit is included verbatim in Appendix A. Counterpart'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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

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

Davis Fann LLP

Irvine, California
February 12, 2021

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Detailed Audit Findings

For the Period October 1, 2018 through February 15, 2020

Finding 2020-01: Costs Incurred Outside of SPFS Period

Nature of Finding:

Internal control – significant deficiency
Noncompliance

Condition:

Counterpart prepared its SPFS on the accrual basis of accounting, but recorded some transactions on the cash basis of accounting which overstated costs for the period audited. We tested 350 out of 2,604 contractual transactions totaling \$2,343,325 out of \$5,842,681 in total costs. Counterpart included 7 contractual transactions totaling \$64,620 which were incurred prior to October 1, 2018 on its SPFS.

Cause:

Counterpart's **supervisors** did not review and approve the invoices for payment in a timely manner prior to October 1, 2018. As such, the invoices were not be recorded in the general ledger until proper approvals were obtained.

Criteria:

2 CFR 200.34 , *Expenditures*, states, in part:

"Expenditures means charges made by a non-Federal entity to a project or program for which a Federal award was received.

(a) The charges may be reported on a cash or accrual basis, as long as the **methodology is disclosed and is consistently applied...**

(c) For reports prepared on an accrual basis, expenditures are the sum of:

(1) Cash disbursements for direct charges for property and services;

(2) The amount of indirect expense incurred;

(3) The value of third-party in-kind contributions applied; and

(4) The net increase or decrease in the amounts owed by the non-Federal entity for: ...

(ii) Services performed by employees, contractors, subrecipients, and other payees; ..."

Counterpart's Project Field Office Financial Procedures Manual dated September 1, 2019, Section 3.4, *Accrual Accounting*, states, in part:

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Detailed Audit Findings

(Continued)

"Counterpart Field offices must follow the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred..."

Additionally, Counterpart's Project Field Office Financial Procedures Manual dated September 1, 2019, Section 3.4.2, *Accrued Expenses*, states, in part:

"For the below items of which expenses have been incurred in current period, while the payments have not been made before month end, the expenses and liabilities should be recorded, or accrued, in current period before book closing:

- Goods or service are delivered and invoiced..."

Effect:

Not reporting contractual expenses on the accrual basis of accounting resulted in an overstatement of contractual costs incurred for the period October 1, 2018 through February 15, 2020, as well as **noncompliance with Federal regulations and Counterpart's procedures.**

Questioned Costs:

Total ineligible questioned costs are \$65,744, which consists of \$64,620 in contractual costs incurred prior to October 1, 2018 plus \$1,124 of associated indirect costs.

Recommendation:

- (1) We recommend that Counterpart either provide evidence that the costs incurred outside of the audit period were not previously billed to USAID, or return \$65,744 to the U.S. Government.
- (2) We recommend that Counterpart establish procedures to review future special purpose financial statements prior to submission to ensure that costs are reported on the accrual basis of accounting, and to provide training to appropriate individuals to ensure procedures are implemented correctly.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Detailed Audit Findings

(Continued)

Finding 2020-02: Unsupported Cost Share

Nature of Finding:

Internal control – significant deficiency
Noncompliance

Condition:

Counterpart reported \$731,781 in cost share for the period October 1, 2018 through February 15, 2020. This cost share was entirely incurred by one of its major subcontractors, Aga Khan Foundation (AKF). We tested one transaction in the amount of \$585,313. Of this amount, AKF made \$564,674 in the form of a certificate of deposit (CD) under the Sustainability Fund to benefit the Afghanistan Organization of Civil Society (AICS). The CD was purchased on December 3, 2018 for a term of one year and matured on December 3, 2019. However, Counterpart did not provide documentation to support how the funds were ultimately expended. Additionally, we could not determine the source of the funds used for the CD. It was unclear as to whether these funds represented **AKF's funds for** the cost-share, or whether they were provided by another federal program. We inquired to determine the status of the funds at maturity, but Counterpart did not provide any documentation for our review. Based on the incomplete and limited documentation provided, we were unable to determine whether the funds were ultimately expended on allowable goods or services.

Cause:

Counterpart included a cost share requirement in its subcontract with AKF. Counterpart indicated that since **AKF invested the funds in a CD for the benefit of AICS, that Counterpart's cost share** obligation was met. However, Counterpart did not maintain documentation of this transaction.

Criteria:

2 CFR 200.405, Allocable costs, states, in part:

"(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received..."

Agreement Section A.14, *Cost Sharing*, states:

"The Recipient agrees to expend an amount not less than \$2,461,119 of total activity costs. Cost share commitments are legally binding."

The cost share amount was reduced in Modification 8 to \$2,389,495.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Detailed Audit Findings

(Continued)

2 CFR 200.306 (b), *Cost sharing or matching*, states, in part:

“(b) For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-**Federal entity’s cost sharing or matching when such contributions meet all of the** following criteria:

- (1) Are verifiable from the non-**Federal entity’s records**;
- (2) Are not included as contributions for any other Federal award;
- (3) Are necessary and reasonable for accomplishment of project or program objectives;
- (4) Are allowable under Subpart E—Cost Principles of this part;
- (5) Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;
- (6) Are provided for in the approved budget when required by the Federal awarding agency; and
- (7) **Conform to other provisions of this part, as applicable...**”

While the reported cost share meets some of the above requirements, it does not meet or we have not been provided documentation indicating that it meets the requirements of items 1, 2, 4 and 5 above.

Effect:

Lack of sufficient documentation to support whether cost-share funds represented **AKF’s** actual funds and whether cost-share funds were expended resulted in **Counterpart’s** inability to demonstrate that it met its cost share requirement.

Questioned Costs:

Total unsupported questioned costs were \$564,674.

Recommendation:

- (1) We recommend that Counterpart either provide evidence that its cost share funds were actually **AKF’s funds used for the cost-share** and expended, or return \$564,674 to the U.S. Government.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Detailed Audit Findings

(Continued)

- (2) We recommend that Counterpart establish procedures to ensure that it fully documents all expenses being claimed as cost share and train staff on these procedures.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Detailed Audit Findings

(Continued)

Finding 2020-03: Misclassification of Expenses

Nature of Finding:

Internal control – significant deficiency
Noncompliance

Condition:

We tested 28 out of 795 travel transactions totaling \$133,859 out of \$265,871 of total travel costs incurred, and noted two transactions totaling \$12,822 that related to printing of election materials **and a women's ACEP directory booklet** that should have been reported under other direct costs (ODC). These costs were otherwise allowable under the terms of the Agreement. Counterpart provided documentation to show reclassification of the costs correctly. Therefore, we did not report any questioned costs because all those costs were allowable by the agreement.

Cause:

Counterpart incorrectly coded the other direct costs as travel costs due to clerical error.

Criteria:

2 CFR 200.403 , *Factors affecting allowability of costs*, states, in part:

"Except where otherwise authorized by statute, costs must meet the following general **criteria in order to be allowable under Federal awards:...**

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of **cost items...**

(e) Be determined in accordance with generally accepted accounting principles **(GAAP)..."**

2 CFR 200.405, *Allocable costs*, states, in part:

"(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received..."

Effect:

Misclassification of costs on the SPFS could result in unallowable or unallocable costs billed under the Agreement. In addition, misclassifications could result in amounts billed in excess of Agreement budget amounts.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Detailed Audit Findings

(Continued)

Questioned Costs:

There are no questioned costs associated with this finding because the costs have been reclassified on the SPFS. After reclassification, the dollar amount of the individual line items are within the budget.

Recommendation:

- (1) We recommend that Counterpart implement procedures to ensure that a supervisor is required to review the preparation of future SPFSs to ensure that individual costs are charged and reported in accordance with the budget classifications per the award.
- (2) We recommend that training be provided to individuals responsible for coding transactions to ensure that procedures are implemented correctly.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Status of Prior Audit Findings

For the Period October 1, 2018 through February 15, 2020

We requested from Counterpart, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to Counterpart's **activities** under the Agreement. We reviewed six prior reports, consisting of four annual financial audits, including audits of federal programs in accordance with Title 2, U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and two financial audits of the ACEP program performed by independent certified public accounting firms on behalf of USAID. We did not identify any findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives.

January 29, 2021

Marcus D. Davis, CPA
Partner
Davis Farr LLP

Dear Mr. Davis,

Re: Financial Audit of Counterpart International, Inc.'s Afghan Civic Engagement Program

Attached please find Counterpart International Inc.'s (Counterpart) management response to Davis Farr's report to be submitted to Office of the Special Inspector General for Afghanistan Reconstruction with respect to financial audit of Counterpart's cooperative agreement number AID-306-A-14-00001 with the United States Agency for International Development ("USAID") funding the Afghan Civic Engagement Program for the Period October 1, 2018 through February 15, 2020.

We appreciate the opportunity to respond to the findings and to provide additional information and clarification.

Please let us know if you have any clarifying questions on our submission.

Sincerely,



Chief Financial Officer

Finding 2020-01: Costs Incurred Outside of SPFS Period

Nature of Finding:

Internal control – significant deficiency
Noncompliance

Condition:

Counterpart prepared its SPFS on the accrual basis of accounting, but recorded some transactions on the cash basis of accounting which overstated costs for the period audited. We tested 350 out of 2,604 contractual transactions totaling \$2,343,325 out of \$5,842,681 in total costs. Counterpart included 7 contractual transactions totaling \$64,620 which were incurred prior to October 1, 2018 on its SPFS.

Cause:

Counterpart's supervisors were did not review and approve the invoices for payment in a timely manner prior to October 1, 2018. As such, the invoices were not be recorded in the general ledger until proper approvals were obtained.

Criteria:

2 CFR 200.34, *Expenditures*, states, in part:

"Expenditures means charges made by a non-Federal entity to a project or program for which a Federal award was received.

(a) The charges may be reported on a cash or accrual basis, as long as the methodology is disclosed and is consistently applied...

(c) For reports prepared on an accrual basis, expenditures are the sum of:

- (1) Cash disbursements for direct charges for property and services;
- (2) The amount of indirect expense incurred;
- (3) The value of third-party in-kind contributions applied; and
- (4) The net increase or decrease in the amounts owed by the non-Federal entity for:...

(ii) Services performed by employees, contractors, subrecipients, and other payees;"

Counterpart's Project Field Office Financial Procedures Manual dated September 1, 2019, Section 3.4, *Accrual Accounting*, states, in part:

“Counterpart Field offices must follow the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred...”

Additionally, Counterpart’s Project Field Office Financial Procedures Manual dated September 1, 2019, Section 3.4.2, *Accrued Expenses*, states, in part:

“For the below items of which expenses have been incurred in current period, while the payments have not been made before month end, the expenses and liabilities should be recorded, or accrued, in current period before book closing:

- Goods or service are delivered and invoiced...”

Effect:

Not reporting contractual expenses on the accrual basis of accounting resulted in an overstatement of contractual costs incurred for the period October 1, 2018 through February 15, 2020, as well as noncompliance with Federal regulations and Counterpart’s procedures.

Questioned Costs:

Total ineligible questioned costs are \$65,744, which consists of \$64,620 in contractual costs incurred prior to October 1, 2018 plus \$1,124 of associated indirect costs.

Recommendation:

We recommend that Counterpart either provide evidence that the costs incurred outside of the audit period were not previously billed to USAID or return \$65,744 to the U.S. Government.

We recommend that Counterpart establish procedures to review future special purpose financial statements prior to submission to ensure that costs are reported on the accrual basis of accounting, and to provide training to appropriate individuals to ensure procedures are implemented correctly.

Counterpart Management Response:

Counterpart respectfully disagrees with the condition, cause and finding. The questioned costs were properly included in the SPFS in accordance with 2 CFR 200.403, as they were recorded in the period covered by the audit in accordance with GAAP, and in accordance with Counterpart’s standard accounting practice regarding subgrantee costs in high-risk environments where Counterpart takes an extra level of due diligence and additional scrutiny on grantees’ expense documentation. According to our subrecipient risk assessment, the grantee was categorized as high risk, and therefore required more monitoring and additional due diligence on its financial documentation consistent with our Subrecipient Monitoring (SRM) guidance and early detection of fraud, before the costs can be accepted and recorded in the books. Counterpart maintains strong financial accounting and internal controls systems to ensure that costs are not double billed to USAID, including robust financial grant tracking and monitoring systems, reconciliations

of grantee reports with Counterpart accounting records and thorough review of grantee documentation to ensure compliance with cost principles outlined under 2CFR200 Part E and responsible use of Federal funds. Consequently, Counterpart's accounting treatment by no means constitutes a deficiency, let alone a significant deficiency.

These costs were recorded consistent with GAAP, and consistent with the accounting treatment used by Counterpart in its annual audited financial statements. Counterpart has consistently received clean audit opinions on these financial statements, which include subgrantee costs which are treated on a basis consistent with the treatment of these costs. Moreover, this practice is the standard industry practice, and is widely recognized as proper by USAID.

Counterpart confirms that the questioned costs are not double billed to USAID. Please refer to the *Finding 2020-01 Annex 1* for each questioned transaction, which includes:

- *Finding 2020-01. GL Extract of Questioned Costs*
- *Finding 2020-01. General Ledger details recorded for the life-of-project grant expenditures of DHSA Grant agreement No. 18-03-03*
- *Finding 2020-01. Grant completion certificate certified by DHSA and Counterpart for Grant Agreement No. 18-03-03*
- *Finding 2020-01. General Ledger details recorded for the life-of-project grant expenditures of ACSFO Grant agreement No. 18-02-02*
- *Finding 2020-01. Grant completion certificate certified by ACSFO and Counterpart for Grant Agreement No. 18-02-02*
- *Finding 2020-01. General Ledger details recorded for the life-of-project grant expenditures of FEFAO Grant agreement No. 18-04-01*
- *Finding 2020-01. Grant completion certificate certified by FEFAO and Counterpart for Grant Agreement No. 18-04-01*

Note that the questioned transactions and related costs highlighted in the ledger details are not duplicated and that the total amount of life-of-project expenditures agrees with those in the grant completion certificates. This clearly demonstrates that the Counterpart's accounting records reconcile with the grantees' records, thereby evidencing that the questioned were not previously billed to USAID.

The questioned costs of \$64,620 relate to financial reports of subgrantees for costs incurred prior to October 1, 2018, but not received, certified, and reviewed as of that date. It is Counterpart's standard practice to only accrue grantee costs at the end of the financial year if:

- The financial reports are submitted and certified by the grantees prior to the cut-off date of final annual close of books (normally by October 31 following the close of Counterpart financial year end date of September 30); and
- The accrual amounts are certain, and it can be reasonably expected that the reported amounts are supported with adequate documentation in compliance with cost principles outlined in 2CFR200 Subpart E and would be accepted upon final review by Counterpart.

These subgrantee costs did not meet the above criteria as of the September 30, 2018 date, and accordingly, were not accrued pursuant to Counterpart's standard accounting practices. As the ACEP program was implemented in Afghanistan, a high-risk environment with a high Corruption Index from Transparency International, Counterpart believes its due diligence practices are prudent and in compliance with GAAP, whereby the costs were properly not accrued nor billed to USAID until the financial reports were fully reviewed and accepted, which occurred subsequent to September 30, 2018.

For the above reasons, Counterpart respectively disagrees with the recommendation #2 above related to the questioned costs. The questioned costs were accepted and recorded in the period covered by current Special Purpose Financial Statements (SPFS) and not included in the SPFS for the ACEP program audited by SIGAR and Office of Inspector General for previous years during the life of the award. Counterpart has implemented proper procedures to prepare and review the SPFS and ensure compliance with GAAP and 2CFR200 before submission to the auditors.

Finding 2020-02: Unsupported Cost Share

Nature of Finding:

Internal control – significant deficiency
Noncompliance

Condition:

Counterpart reported \$731,781 in cost share for the period October 1, 2018 through February 15, 2020. This cost share was entirely incurred by one of its major subcontractors, Aga Khan Foundation (AKF). We tested one transaction in the amount of \$585,313. Of this amount, AKF made \$564,674 in the form of a certificate of deposit (CD) under the Sustainability Fund to benefit the Afghanistan Organization of Civil Society (AICS). The CD was purchased on December 3, 2018 for a term of one year and matured on December 3, 2019. However, Counterpart did not provide documentation to support how the funds were ultimately expended. Additionally, we could not determine the source of the funds used for the CD. It was unclear as to whether these funds represented AKF's funds for the cost-share, or whether they were provided by another federal program. We inquired to determine the status of the funds at maturity, but Counterpart did not provide any documentation for our review. Based on the incomplete and limited documentation provided, we were unable to determine whether the funds were ultimately expended on allowable goods or services.

Cause:

Counterpart included a cost share requirement in its subcontract with AKF. Counterpart indicated that since AKF invested the funds in a CD for the benefit of AICS, that Counterpart's cost share obligation was met. However, Counterpart did not maintain documentation of this transaction.

Criteria:

2 CFR 200.405, Allocable costs, states, in part:

“(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received...”

Agreement Section A.14, *Cost Sharing*, states:

“The Recipient agrees to expend an amount not less than \$2,461,119 of total activity costs. Cost share commitments are legally binding.”

The cost share amount was reduced in Modification 8 to \$2,389,495.

2 CFR 200.306 (b), *Cost sharing or matching*, states, in part:

“(b) For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity’s cost sharing or matching when such contributions meet all of the following criteria:

- (1) Are verifiable from the non-Federal entity’s records;
- (2) Are not included as contributions for any other Federal award;
- (3) Are necessary and reasonable for accomplishment of project or program objectives;
- (4) Are allowable under Subpart E—Cost Principles of this part;
- (5) Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;
- (6) Are provided for in the approved budget when required by the Federal awarding agency; and
- (7) Conform to other provisions of this part, as applicable...”

While the reported cost share meets some of the above requirements, it does not meet or we have not been provided documentation indicating that it meets the requirements of items 1, 2, 4 and 5 above.

Effect:

Lack of sufficient documentation to support whether cost-share funds represented AKF's actual funds and whether cost-share funds were expended resulted in Counterpart's inability to demonstrate that it met its cost share requirement.

Questioned Costs:

Total unsupported questioned costs were \$564,674.

Recommendation:

We recommend that Counterpart either provide evidence that its cost share funds were actually AKF's funds used for the cost-share and expended or return \$564,674 to the U.S. Government.

We recommend that Counterpart establish procedures to ensure that it fully documents all expenses being claimed as cost share and train staff on these procedures.

Counterpart Management Response:

Counterpart respectfully disagrees with the condition, cause and the finding. Counterpart provided evidence throughout the period of audit to Davis Farr LLP supporting the subrecipient's cost share for the grant including the requested Finding 2020-02. Annex 6: [REDACTED] voucher, GL reference, selection of investment manager, [REDACTED] Bank statement, transfer instructions and voucher and Memorandum of Understanding for the permanent Investment Committee, USAID correspondence related to Aga Khan Foundation (AFK) contribution, AKF's cost share certification. The last submission included AKF's management response letter on November 10, 2020 together with underlying documentation. In its response below, Counterpart provides additional background for the purpose of the cost share, resubmits evidence that the funds are from AKF's unrestricted accounts and how the cost share contribution requirement was met.

As background, ACEP's objectives aligned with USAID/Afghanistan Mission's Objectives including increasing civil society organizations' (CSO) organizational capacity and long-term sustainability and are included in ACEP's Theory of Change (Modification No. 9 to the cooperative agreement). One of the challenges of Afghan CSOs' sustainability is financial sustainability and the dependence on donor funds to operate. As part of its Afghan First approach, the ACEP program focused on these objectives in several ways including building AICS's capacity to certify Afghan CSOs and developing its long-term organizational and financial sustainability. Counterpart's consortium member and grantee, AKF had been incubating AICS, an Afghan CSO that certified local CSOs' capacity. In the program description of Counterpart's cooperative agreement with USAID, under 5.4 Institutionalize CSO Legitimacy and Accountability through Certification-Catalyzing the AICS, one of the program activities was, through the grant to AKF, for ACEP to "...develop a long-term sustainability plan, including **development of an institutional asset base through diversified funding** to ensure from the outset a strategy to incrementally reduce reliance on international donors for AICS (Modification No. 9 to the cooperative agreement)". AKF's long term sustainability plan included an innovative, non-traditional sustainability platform (asset

base) as part of its cost share commitment to developing long term, diverse, financial funding for AICS that is independent from international donor funding, thus contributing to sustaining AICS and extending the program benefits received after the ACEP funding ended.

The purpose of the cost share contribution was for AKF to use its unrestricted funds to catalyze an investment fund with a diversified asset base (as planned in cooperative agreement's Program Description) by creating a certificate of deposit (CD) designated to the AICS Sustainability Platform fund. The eligible cost share was the principal amount in the CD. The resultant earnings would be available for AICS' future use, contributing to its sustainability and reducing its dependence on international donor funding, and transfer capitalized funding to AICS after receiving approval from the permanent Investment Committee. The permanent Investment Committee, AKF's governance structure, is in place to oversee the AICS Sustainability Platform fund and ensures that the disbursements are made in accordance with "...laws of the District of Columbia, USA and principles of US federal grants law" (Finding 2020-02. Annex 9 Section B.5.11 Governing Law and Dispute Resolution) for AICS's program and organizational sustainability. AKF reconciles the Sustainability Platform account on a monthly basis along with all other bank accounts. Additionally, under the OMB Uniform Guidance, AKF is audited annually, including the AICS Sustainability Platform.

Counterpart hereby incorporates AKF's management response letter verbatim to clarify how this non-traditional, innovative cost share is used for the long-term sustainability of AICS, one of the objectives of the ACEP program, and per 2 CFR 200.306(b)(3) is necessary and reasonable for the accomplishment of the program objectives of financial sustainability of AICS, are verifiable from its records (audit reports), not included as contributions for any Federal Award (taken from unrestricted funds from AKF fundraising campaigns), and are not paid by the Federal government under another Federal award. Additionally, Counterpart submits the following Annexes referenced in AKF's letter as evidence to support the cost share.

- *Finding 2020-02. ACEP SIGAR Audit 2020_Mangement Response - Final*
- *Finding 2020-02. Annex 1 – Modification #9 to the agreement between AKF USA and Counterpart International*
- *Finding 2020-02. Annex 2 - Investment Committee Bylaws*
- *Finding 2020-02. Annex 3: Certification from AKF's Regional CFO for North America on the Origin of ACEP's Cost Share*
- *Finding 2020-02. Annex 4: AKF Uniform Guidance Audit Report – FY 2018 – 2019*
- *Finding 2020-02. Annex 5: AKF ACEP 2018 Q4 Financial Report*
- *Finding 2020-02. Annex 6: [REDACTED] including voucher, GL reference, selection of investment manager, [REDACTED] Bank statement, transfer instructions and voucher.*
- *Finding 2020-02. Annex 7: Confirmation of Sustainability Funds Balance Statement from AICS*
- *Finding 2020-02. Annex 8: [REDACTED] Confirmation Letter*
- *Finding 2020-02. Annex 9: Memorandum of Understanding for the permanent Investment Committee*

- *Finding 2020-02. Annex 10: ACEP Year 6 approved Annual Work Plan (see page 37)*
- *Finding 2020-02. Annex 11: Modification #11 to the agreement between AKF USA and Counterpart International*

AKF's verbatim management letter to Counterpart dated January 22, 2021 and signed by [REDACTED] (Finding 2020-02. ACEP SIGAR Audit 2020_Mangement Response – Final):

The purpose of the AICS Sustainability Platform under the ACEP project, as approved and formalized in the Year 6 Annual Work Plan and Modifications #9 and #11 of the agreement between AKF USA and Counterpart International, was to develop an institutional asset base for AICS, which will enable diversified funding and reduce reliance on international donor funds over the long term and beyond the period of the ACEP project itself. In particular, I would like to refer you to Modification No. 9, Activity 5.4: Institutionalize CSO Legitimacy and Accountability through Certification – Catalyzing the AICS. Under this activity, which was approved by USAID, we committed to developing a long-term sustainability plan for AICS, including the development of an institutional asset base through diversified funding, to ensure from the outset a strategy to incrementally reduce reliance on international donors. (*Annex 1 – Modification #9 to the agreement between AKF USA and Counterpart International*).

USAID, Counterpart International, and AKF agreed that providing a source of long-term funding to a fledgling Afghan civil society institution, one that outlasted the time-bound project, was an important deliverable of ACEP, in-line with the ACEP's goal and objectives. The establishment of the Sustainability Platform as a fund was the main approved deliverable agreed to under ACEP; the fund was never intended to procure specific goods and services, but rather to invest in the financial sustainability of AICS. As codified in the AICS Investment Committee Bylaws, "the funds invested by AKF USA shall be used exclusively in support of AICS and not for any other purposes". Furthermore, the bylaws stipulate that "The intended impact of the funds is for AICS program and organizational sustainability." (*Annex 2 - Investment Committee Bylaws*). The Investment Committee, formally established in June 2019, was put in place to provide approval for AICS' use of funds and to ensure the proper stewardship of the Sustainability Platform. In keeping with the purpose of the Sustainability Platform to provide long-term support to AICS beyond ACEP, no AICS Sustainability Platform funds were expended during the life of the ACEP Project. AKF's capitalization of the fund in December 2018 serves as its cost share expenditure under the ACEP award.

Annex 1 – Modification #9 to the agreement between AKF USA and Counterpart International

Annex 2 - Investment Committee Bylaws

In response to the detailed audit findings of costs incurred under ACEP, please find below additional documentation to demonstrate that the cost share provided under this grant aligns with sections 1, 2, 4, and 5 of 2 CFR 200.405. AKF confirms that the allocable costs:

Are verifiable from the non-Federal entity's records

There are several ways in which AKF can confirm that the cost share funds are verifiable from AKF's records.

The funds used for creating the Certificate of Deposit (CD) designated to the AICS Sustainability Platform are sourced from AKF USA's unrestricted internal funds and are verifiable on AKF books of accounts by an exclusive grant code, [REDACTED]. The attached *Annex 3: Certification from AKF's Regional CFO for North America on the Origin of ACEP's Cost Share* certifies that the funds originated from AKF USA cost share, which is sourced from individual contributions to AKF fundraising campaigns.

AKF USA assigns a separate grant code for every individual matching component of a grant against its respective externally funded component. AKF USA's accounting system allows for the recording, tracking, and reporting of matching expenses separately from those of external funds, disaggregated by grant. The accounting for every component of AKF USA's grant portfolio is subject to the Foundation's annual A-133 (Uniform Guidance) statutory audit. Please see *Annex 4: AKF Uniform Guidance Audit Report – FY 2018 - 2019* for more information. In December 2018, when the Sustainability Fund was established, AKF capitalized the CD as Investments in its Financial Statements. AKF reported this expense to USAID in Quarter 4 of 2018. Please see *Annex 5: AKF ACEP 2018 Q4 Financial Report* for more details.

The capitalization of the Sustainability Fund was expensed against the project [REDACTED] with a payable to AICS (*Annex 6, [REDACTED], GL 2018*). The funds are tracked by a distinct general ledger account on both the asset and liability sides (respectively account code [REDACTED] and account code [REDACTED]). Future transfers from the funds were made to AICS at their request following approval of the Investment Committee, which reviews and approves all requests. The transfers were credited from the Sustainability Platform account, reducing AKF's payables to AICS. AKF USA reconciles this account on a monthly basis along with all other bank accounts. (*Annex 7: Confirmation of Sustainability Funds Balance Statement from AICS*).

The attached letter, *Annex 8, JP Morgan Confirmation Letter*, provides proof that upon maturity, the account was closed and that funds were posted into AKF USA's AICS Sustainability Platform, demonstrating that AICS is the ultimate recipient of the funds. Per the attached *Annex 9: Memorandum of Understanding for the permanent Investment Committee*, and *Annex 2: Investment Committee Bylaws*, the determination of the use of

the funds after the close-out of the ACEP project is solely at the discretion of the Investment Committee, guided by the Committee's Bylaws, which state that "the intended impact of the funds is for AICS program and organizational sustainability." It is the responsibility of the Investment Committee to ensure the proper stewardship of the Sustainability Platform.

Annex 3: Certification from AKF's Regional CFO for North America on the Origin of ACEP's Cost Share

Annex 4: AKF Uniform Guidance Audit Report – FY 2018 – 2019

Annex 5: AKF ACEP 2018 Q4 Financial Report

Annex 6: [REDACTED] including voucher, GL reference, selection of investment manager, [REDACTED] Bank statement, transfer instructions and voucher.

Annex 7: Confirmation of Sustainability Funds Balance Statement from AICS

Annex 8: [REDACTED] Confirmation Letter

Annex 9: Memorandum of Understanding for the permanent Investment Committee

Annex 2: Investment Committee Bylaws

Are not included as contributions for any other Federal award;

The funds used for the AICS Sustainability Fund have not been used as contributions for any other Federal Award. AKF USA has documentation to support all aspects of the establishment, management, and disbursement of the Fund. In particular:

Each project is audited for compliance with USAID Federal Regulations, including cost share requirements, during AKF's Annual Statutory Single Audit. Please see *Annex 4: AKF Uniform Guidance Audit Report – FY 2018 – 2019* for more details.

AKF USA's accounting system allows for disaggregation of cost share reporting by grant to ensure that cost share is not double counted across Federal grants. This is tested and verified through AKF USA's Annual Statutory Audit Process. Please see - *Annex 4: AKF Uniform Guidance Audit Report – FY 2018 – 2019* for more details.

The attached *Annex 3: Certification from AKF's Regional CFO for North America on the Origin of ACEP's Cost Share* confirms that the funds committed to the AICS Sustainability Fund have not been used as contributions for any other Federal Award.

Annex 3: Certification from AKF's Regional CFO for North America on the Origin of ACEP's Cost Share

Annex 4: AKF Uniform Guidance Audit Report – FY 2018 - 2019

(4) Are allowable under Subpart E—Cost Principles of this part

The AICS Sustainability Platform is allowable, as it does not meet the criteria of any of the unallowable costs included under 2 CFR 200 Subpart E.

The Sustainability Platform was approved as part of ACEP's Year 6 Annual Work Plan (*Annex 10*) and incorporated into Modifications #9 (*Annex 1*) and #11 (*Annex 11*) of the agreement between AKF USA and Counterpart International.

Furthermore, AKF has established a robust governance structure to ensure the proper stewardship of the AICS Sustainability platform. AICS and the Aga Khan Foundation established an Interim Investment Committee to govern the use of the Funds dedicated to the Sustainability Platform and to oversee the formation of a permanent Investment Committee. The Interim Investment Committee's period of performance was from September 1, 2018 to June 30, 2019. In June 2019, a permanent Investment Committee was established. The purpose of the committee is to oversee and fulfill all necessary governance functions for the Funds dedicated to the Sustainability Platform and to ensure that the funds invested in the Sustainability Platform by AKF USA under ACEP are used exclusively in support of AICS and not for any other purposes. The Investment Committee agreed on bylaws dated 25 April 2020 that clarify the purpose of and govern the work of the Investment Committee. The Committee has been meeting regularly since its establishment.

An important goal of ACEP was to ensure the sustainability of AICS as an independent Afghan institution. The purpose of the AICS Sustainability Platform was to develop an institutional asset base for AICS, which will enable diversified funding and reduce reliance on international donor funds over the long term. As such, the establishment of the Sustainability Platform as a fund was the main deliverable agreed to under ACEP; the fund was never intended to procure specific goods and services, but to invest in the financial sustainability of AICS. **AKF's capitalization of the fund in December 2018 serves as its cost share expenditure under the ACEP award.** All expenses are approved by the investment committee to ensure the proper stewardship of AICS Sustainability Platform funds; expenditure of the Sustainability Platform funds themselves are outside of the scope of the ACEP project.

Annex 1 – Modification #9 to the agreement between AKF USA and Counterpart International (“We will develop a long-term sustainability plan, including development of an institutional asset base through diversified funding to ensure from the outset a strategy to incrementally reduce reliance on international donors.”)

Annex 10: ACEP Year 6 approved Annual Work Plan (see page 37: “AICS’s sustainability is a major goal of ACEP. The cost-share funded one-time sustainability platform expenditure, carried over from previous work plans, will take place before December 3, 2018, representing the majority of remaining available AKF cost share funds.”)

Annex 11: Modification #11 to the agreement between AKF USA and Counterpart International, (see page 36: “The cost-share funded one-time sustainability platform expenditure, carried over from previous work plans, will take place before December 3, 2018, representing the majority of remaining available cost share funds”).

(5) Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made

available for such program can be applied to matching or cost sharing requirements of other Federal programs;

Please refer to Section (1) where it is documented that AKF's AICS cost share funding is sourced from individual contributions to AKF fundraising campaigns, and not from any Federal sources.

(2) Counterpart respectfully disagrees with this recommendation. Counterpart's financial statements appropriately included this cost share, complied with GAAP, and received clean audit opinions. Counterpart has established procedures in its Cost Share Manual to ensure that cost share contributions are adequately documented. AKF's Sustainability Platform is an innovative cost share contribution providing for a local organization's long-term sustainability that extends beyond the traditional reach of a project.

Counterpart periodically revises its policies and manuals to comply with changes in regulations, incorporate best practices and lessons learned. The last Cost Share Manual update was October 2019. Based on this experience, Counterpart will incorporate lessons learned from non-traditional cost share to ensure proper planning and guidance on types of supplementary documentation into the next revision of its Cost Share Manual and highlight cost share monitoring in its Subrecipient Monitoring (SRM) guidance documents. Counterpart will also provide refresher trainings to its staff on cost share and sub-recipient monitoring, and cost share to its subrecipients.

Finding 2020-03: Misclassification of Expenses

Nature of Finding:

Internal control – significant deficiency Noncompliance

Condition:

We tested 28 out of 795 travel transactions totaling \$133,859 out of \$265,871 of total travel costs incurred, and noted two transactions totaling \$12,822 that related to printing of election materials and a women's ACEP directory booklet that should have been reported under other direct costs (ODC). These costs were otherwise allowable under the terms of the Agreement. Counterpart provided documentation to show reclassification of the costs correctly. Therefore, we did not report any questioned costs because all those costs were allowable by the agreement.

Cause:

Counterpart incorrectly coded the other direct costs as travel costs due to clerical error.

Criteria:

2 CFR 200.403 , *Factors affecting allowability of costs*, states, in part:

“Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items...
- (e) Be determined in accordance with generally accepted accounting principles (GAAP)...

2 CFR 200.405, Allocable costs, states, in part:

“(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received...”

Effect:

Misclassification of costs on the SPFS could result in unallowable or unallocable costs billed under the Agreement. In addition, misclassifications could result in amounts billed in excess of Agreement budget amounts.

Questioned Costs:

There are no questioned costs associated with this finding because the costs have been reclassified on the SPFS. After reclassification, the dollar amount of the individual line items are within the budget.

Recommendation:

We recommend that Counterpart implement procedures to ensure that a supervisor is required to review the preparation of future SPFSs to ensure that individual costs are charged and reported in accordance with the budget classifications per the award.

We recommend that training be provided to individuals responsible for coding transactions to ensure that procedures are implemented correctly.

Counterpart Management Response:

Counterpart accepts the auditors’ finding but disagrees that this is a significant deficiency. The misclassification of costs was an oversight due to human error. There is no impact on the total program costs. Counterpart has implemented the procedures that segregates the preparer,

reviewer and clearer, among other things, to review and approve the classification of expenditures before the transactions are recorded in the accounting system. Based on this experience, Counterpart will incorporate lessons learned from this finding and ensure proper classification of costs in accordance with the budget and cost principles outlined in 2CFR200 Subpart E. Counterpart will also provide refresher trainings to its Finance and Accounting teams.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Auditor's Rebuttal to Counterpart's Response to Findings

For the Period October 1, 2018 through February 15, 2020

Counterpart disagreed with all three findings. We have reviewed management's response for its disagreements and provide the following rebuttals.

Finding 2020-01: Costs Incurred Outside of SPFS Period

Counterpart disagreed with this finding indicating that the questioned costs were properly included in the SPFS in accordance with 2 CFR 200.403, and recorded in accordance with GAAP and **Counterpart's standard accounting practice and due diligence reviewing subgrantee costs in high-risk environments.** The SPFS was prepared for the period October 1, 2018 through February 15, 2020. Based upon its admission, Counterpart prepared the SPFS in accordance with GAAP as required by 2 CFR 200.403, and on the accrual basis of accounting. The accrual basis of accounting requires costs to be reported when incurred and not when paid. As each of the questioned transactions were incurred prior to October 1, 2018, they should have been excluded from the costs reported on the SPFS. Because the scope of this audit is only for the period October 1, 2018 through February 15, 2020, we are unable to determine whether costs incurred prior to October 1, 2018 were either included on previous Agreement audits or billed to USAID. As such, our finding remains unchanged.

Finding 2020-02: Unsupported Cost Share

Counterpart disagreed with this finding indicating that it provided evidence throughout the period of audit to **support AKF's cost share for the Agreement including the requested** voucher, GL reference, selection of investment manager, bank statement, transfer instructions and voucher and Memorandum of Understanding for the permanent Investment Committee, with the last submission on November 10, 2020 together with documentation. When auditing the cost share, we noted that Counterpart had a cost share requirement of \$2,389,495 included as part of its Agreement. We noted that for the period of the SPFS, Counterpart reported cost share of \$731,781. Of this amount, \$585,313 was incurred by AKF and included in our testing. Of this amount, AKF purchased a certificate of deposit (CD) in the amount of \$564,674. It is this CD that is the subject of this finding. The CD was purchased on December 3, 2018 for a term of one year and matured on December 3, 2019. No documentation was provided by Counterpart or AKF to demonstrate that upon maturity of the CD, what happened to the funds and what were they used for. Counterpart and AKF included more than 180 pages of additional documentation with its management response that allegedly supports that the CD was allowable. However, we were unable to determine from this documentation, or any documentation submitted during the course of the audit, how the funds invested in the initial CD were ultimately used, whether these funds represented **AKF's funds** for the cost-share, or whether they were provided by another federal program. In the absence of evidence, other than testimonial evidence, that the funds were expended for allowable goods or services, our finding remains unchanged.

COUNTERPART INTERNATIONAL, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. AID-306-A-14-00001
Afghan Civic Engagement Program (ACEP)

Auditor's Rebuttal to Counterpart's Response to Findings

(Continued)

Finding 2020-03: Misclassification of Expenses

Counterpart agrees with this finding, but disagrees with it being identified as a significant deficiency. As the determination of the categorization of findings as deficiencies, significant deficiencies, or material weaknesses is a matter of auditor professional judgment, our finding remains unchanged.

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:

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