

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 21-42 Financial Audit**

## Department of State's Legal Aid through Legal Education Program in Afghanistan: Audit of Costs Incurred by The Asia Foundation

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



JULY  
2021

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On April 1, 2015, the U.S. Department of State (State) awarded a \$3 million cooperative agreement to The Asia Foundation (TAF) to support the Legal Aid through Legal Education program in Afghanistan. The program included efforts to increase sustained access to justice and improve legal education at six partner universities. After seven modifications, the agreement's total funding increased to \$10,535,003, and the period of performance was extended from September 30, 2016, to February 29, 2020.

SIGAR's financial audit, performed by Conrad LLP (Conrad) reviewed \$10,056,772 in costs charged to the agreement from April 1, 2015, through February 29, 2020. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in TAF'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 TAF has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of TAF's Special Purpose Financial Statement (SPFS). See Conrad'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 Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

July 2021

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SIGAR 21-42-FA

### WHAT SIGAR FOUND

Conrad identified three significant deficiencies in TAF's internal controls, and three instances of noncompliance with the terms of the agreement. For example, the auditors found a lack of required dates, signatures and supervisory approval in 74 of the 282 timesheets tested to determine if costs were accurately supported and properly approved. As result of the timesheet review, the auditors identified \$59,395 in questioned costs. The auditors also tested expenditures for subgrantees and found that for 61 of 331 invoices, a subgrantee charged costs based on the pre-approved budget percentage instead of based on the actual incurred costs. Additionally, 1 invoice was not related to the project, and TAF could not provide supporting documentation for 6 other invoices. As result, the auditors identified \$28,007 in questioned costs.

As a result of the 6 significant deficiencies and instances of noncompliance, Conrad identified a total of \$101,378 in total questioned costs, consisting of \$99,418 unsupported costs—costs not supported with adequate documentation or that do not have required approval—and \$1,960 ineligible costs—costs prohibited by the agreement or applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel Salary	\$0	\$50,847	\$50,847
Contractual	\$1,960	\$26,047	\$28,007
Other Direct Costs	\$0	\$11,996	\$11,996
Indirect Costs	\$0	\$10,528	\$10,528
<b>Total Costs</b>	<b>\$1,960</b>	<b>\$99,418</b>	<b>\$101,378</b>

Conrad identified four prior audit reports that were relevant to TAF's agreement. The reports had five findings that could have a material effect on the SPFS and other financial data that are significant to this audit's objectives. Conrad conducted follow-up procedures and concluded that TAF had taken adequate corrective action on four of the five findings; one finding remains open. The open finding was related to ineligible costs charged to the program, which was repeated under this audit.

Conrad issued an unmodified opinion on TAF's SPFS, noting that it presents fairly, in all material respects, revenues received, and costs incurred for the period indicated.

### WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$101,378 in questioned costs identified in the report.
2. Advise TAF to address the report's three internal control findings.
3. Advise TAF to address the report's three noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

July 14, 2021

The Honorable Antony J. Blinken  
Secretary of State

Mr. Ross Wilson  
U.S. Chargé d'Affaires to Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by The Asia Foundation (TAF) under a cooperative agreement from the U.S. Department of State (State) to support the Legal Aid through Legal Education program.<sup>1</sup> The program included efforts to increase sustained access to justice and improve legal education at six partner universities. Conrad reviewed \$10,056,772 in costs charged to the agreement from April 1, 2015, through February 29, 2020. Our contract with Conrad 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 State:

- 1. Determine the allowability of and recover, as appropriate, \$101,378 in questioned costs identified in the report.**
- 2. Advise TAF to address the report's three internal control findings.**
- 3. Advise TAF to address the report's three noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad'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 TAF's Special Purpose Financial Statement. We also express no opinion on the effectiveness of TAF's internal control or compliance with the agreement, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Conrad 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](mailto: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-206)

<sup>1</sup> The agreement number is SINLEC15CA0034.

**The Asia Foundation**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Enforcement Affairs  
Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

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May 19, 2021

Board of Directors  
The Asia Foundation  
San Francisco, California, USA

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

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of The Asia Foundation ("TAF") Special Purpose Financial Statement ("SPFS") for costs incurred under Cooperative Agreement No. SINLEC15CA0034 ("Agreement") awarded by the Department of State's ("State"), Bureau of International Narcotics and Law Enforcement Affairs ("INL") to support the Legal Aid through Legal Education ("LALE") program for the period of April 1, 2015 through February 29, 2020.

On March 26, 2021, we provided SIGAR with a draft report reflecting our audit procedures and results. TAF received a copy of the report on April 29, 2021; and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and TAF. TAFs' responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

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

Sincerely,

A handwritten signature in blue ink that reads "Conrad LLP".

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

## The Asia Foundation

### Financial Audit of Costs Incurred Under Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's Bureau of International Narcotics and Law Affairs Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

#### Background

On April 1, 2015, the U.S. Department of State ("State"), Bureau of International Narcotics and Law Enforcement Affairs ("INL"), awarded a \$3,000,000 Cooperative Agreement ("Agreement") No. SINLEC15CA0034 to The Asia Foundation ("TAF") for increasing access to justice for family law clients and to strengthen the capacity of civil society and young lawyers to protect human rights in Afghanistan, hereafter called the Legal Aid through Legal Education ("LALE").

The objectives of the Agreement include:

1. To increase access to justice for the most vulnerable segments of society, particularly women, by providing access to legal information and advice and facilitating access to the formal justice sector through the support of Legal Advice Bureaus.
2. Through Practical Legal Education Program, increase the quality and content of curriculum at Law and Shariah Faculties in six partner universities, emphasizing developing the practical skills needed to increase the effectiveness of advocates.
3. Ensure the sustainability of the increasing access to justice/or family law clients and strengthening the capacity of civil society and young lawyers to protect human rights in Afghanistan.

The Agreement's original period of performance was from April 1, 2015, through September 30, 2016. Following seven amendments to the Agreement, the program funding was increased to \$10,535,003 and the performance period was extended from September 30, 2016 to February 29, 2020.

Conrad audit procedures reviewed \$10,056,772 in incurred costs charged to the LALE program from 04/01/2015 through 02/29/2020. This was a closeout audit that required additional auditing procedures.

#### Work Performed

Conrad LLP ("Conrad") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of the Cooperative Agreement as mentioned above, of TAF's Special Purpose Financial Statement ("SPFS") for costs incurred under the LALE program for the period from April 1, 2015 through February 29, 2020, with a total incurred cost of \$10,056,772.

#### Objectives, Scope, and Methodology

##### Audit Objectives

The objectives of the audit of the aforementioned Agreement include the following:

- *Special Purpose Financial Statement ("SPFS")* – Express an opinion on whether TAF's SPFS for the Cooperative Agreement presents fairly, in all material respects, the revenues received, costs

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incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the Cooperative Agreement and generally accepted accounting principles or other comprehensive basis of accounting.

- *Internal Controls* – Evaluate and obtain a sufficient understanding of TAF's internal controls related to the Cooperative Agreement, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether TAF complied, in all material respects, with the Cooperative Agreement requirements and applicable laws and regulations and identify and report on instances of material noncompliance with terms of the Cooperative Agreement 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 TAF 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 included all costs incurred during the period of April 1, 2015 through February 29, 2020 totaling \$10,056,772 under the Agreement. Our testing of the indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved in the Negotiated Indirect Cost Rate Agreement (NICRA) and subsequent applicable amendments.

### Audit Methodology

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

#### Entrance Conference

An entrance conference was held on October 7, 2020 with representatives of TAF, Conrad, SIGAR, and State participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

#### Planning

During our planning phase, we performed the following:

- Obtained an understanding of TAF. The scope of our audit includes the TAF's management and employees, internal and external factors that affect operations, and accounting policies and

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## The Asia Foundation

### Financial Audit of Costs Incurred Under Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's Bureau of International Narcotics and Law Affairs Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

procedures. We gained an understanding of TAF through interviews, observations, and reading policies and manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:

- Cooperative Agreement and all amendments;
  - Any subawards;
  - Any regulations that are specific to the Cooperative Agreements requirements;
  - Audited financial statements;
  - Previous audit reports;
  - Other internal audit reports;
  - Government Accountability Office (GAO) reports; and
  - Consultant reports.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs are properly recorded.

#### Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Agreement, and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement, and reasonable;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional and final negotiated indirect cost rates to ensure that they were accurately applied.

#### Internal Controls Related to the Agreement

We reviewed TAF's internal controls related to the Agreement to gain an understanding of the implemented system of internal control to obtain reasonable assurance of TAF's financial reporting

(Continued)

## **The Asia Foundation**

### **Financial Audit of Costs Incurred Under Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's Bureau of International Narcotics and Law Affairs Legal Aid through Legal Education (LALE)**

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function and compliance with applicable laws and regulations. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

#### **Compliance with Agreement Requirements and Applicable Laws and Regulations**

We performed tests of transactions to determine whether TAF complied, in all material respects, with the Agreements' requirements, 2 CFR 200, 2 CFR 600, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Agreement and applicable laws and regulations, including potential fraud or abuse that may have occurred.

#### **Corrective Action on Prior Findings and Recommendations**

We requested from TAF to identify previous engagements that could have a material effect on TAF's SPFS. In addition, we conducted a search online of various governmental websites, including SIGAR (www.sigar.mil), State (www.state.gov), and other applicable Federal agencies, to identify previous engagements that could have a material effect on TAF's SPFS. For those engagements, we evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Status of Prior Audit Findings section on page 25.

#### **Exit Conference**

An exit conference was held on March 18, 2021, via conference call. Participants included representatives from Conrad, TAF, SIGAR, and Department of State. During the exit conference, we discussed the preliminary results of the audit and reporting process.

### **Summary of Results**

We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

#### **Auditor's Opinion on the SPFS**

Conrad issued an unqualified opinion on the fairness of the presentation of the SPFS.

We identified \$101,378 in total questioned costs, which comprised of \$1,960 in ineligible costs and \$99,418 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Agreement's provisions or applicable laws and regulations, or not related to the Agreement. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

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Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on TAF's SPFS. 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*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

### Internal Control Findings

Our audit discovered three internal control findings. The three internal control findings considered to be significant deficiency. See Independent Auditor's Report on Internal Control on page 15.

### Compliance Findings

The results of our testing disclosed three instances of noncompliance. See the Independent Auditor's Report on Compliance on page 17.

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 were not identified during our testing.

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### Schedule of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2021-01	Significant deficiency in internal control and Noncompliance	Completed timesheets did not follow TAF's timekeeping policy.	\$0	\$59,395	\$59,395
2021-02	Significant deficiency in internal control and Noncompliance	Missing or insufficient documentation to support the cost incurred.	\$0	\$13,976	\$73,371
2021-03	Significant deficiency in internal control and Noncompliance	Lack of adequate monitoring over subgrantees.	\$1,960	\$26,047	\$101,378
<b>Total Questioned Costs</b>			<b>\$1,960</b>	<b>\$99,418</b>	<b>\$101,378</b>

#### Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to TAF's activities under the Agreement. We identified four prior audit reports that contained five findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with the management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our current audit. Based on our review, TAF had taken adequate corrective actions on four out of the five findings and did not take adequate corrective action on one finding. See Status of Prior Audit Findings on page 25 for a detailed description of the prior findings and recommendations.

#### **Summary of The Asia Foundations' Responses to Audit Findings**

The following represents a summary of the responses provided by TAF to the findings identified in this report (The complete responses received can be found in Appendix A to this report):

(Continued)

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Financial Audit of Costs Incurred Under  
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For the Period of April 1, 2015 through February 29, 2020

- (1) 2021-01: TAF did not agree with the finding and provided the following response:
- a. In response to the questioned cost related to the timesheet submitted in advance, TAF stated that its general policy of submitting timesheets at the end of two weeks applies to employees working on multiple projects and the system does not restrict time charging in advance for staff affiliated with a single project. In addition, since Afghanistan observes Friday and Saturday as weekends, the timesheet submitted on February 8, 2017 represented February 9, 2017 Kabul time, making the submission a day early.
  - b. In response to the questioned cost related to timesheets missing the signature and/or date by the employee, approving supervisor, or both, TAF's response included two parts:
    - TAF stated that it was an honest mistake on the part of both the employee and the supervisor. The batch processing reports provided for the pay period served as evidence for the timely processing of payroll. In addition, TAF stated that effective June 2020, TAF introduced a web-based submission and approval of timesheets which will automatically date and time stamp the timesheets, and that the staff has been provided adequate training on the new process.
    - TAF stated that apart from its timekeeping policies, it has adequate controls to ensure that the hours captured on individual projects are correct and the timesheet corrections noted during the testing provide evidence to substantiate the same.
- (2) 2021-02: TAF agreed with the finding. TAF stated that it was unable to provide documentation related to Other Direct Costs due to the work from home modality and challenges in retrieving the documentation from its hard storage area. TAF provided additional supporting documentation along with the management response. We reviewed the additional documents and updated the finding accordingly.
- (3) 2021-03: TAF partially agreed to the finding and provided the following response:
- a. TAF stated they were unable to provide the support on-time due to tight deadline and 5 undergoing audits. TAF uploaded support for all 16 invoices along with the management responses.
  - b. In response to the questioned cost related to charging costs based on a percentage rather than actual than an actual allocation methodology, TAF disagreed with the finding and stated that local NGO's maintain a simplified accounting system and do not have the capability to pool costs and distribute them according to the projects managed by them. TAF ensures the reasonableness of costs using the 2 CFR 200.405 (d) direct cost allocation principle. Non-labor costs are negotiated to a certain percentage, and labor costs are determined based on the level of effort required by subrecipient staff. In addition, financial reports submitted by

(Continued)

## **The Asia Foundation**

Financial Audit of Costs Incurred Under  
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subrecipients are supported by actual invoices, and an explanation is sought for any instances of variations.

- c. In response to the questioned cost related to subgrantee charging costs not associated with the LALE project, TAF agreed that one of the transaction was charged to the program in error.

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## INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors  
The Asia Foundation  
San Francisco, California, USA

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

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

We have audited the accompanying Special Purpose Financial Statement of The Asia Foundation ("TAF") and the related notes to the Special Purpose Financial Statement, with respect to the Cooperative Agreement ("Agreement") No. SINLEC15CA0034 awarded by the Department of State's ("State"), Bureau of International Narcotics and Law Enforcement Affairs ("INL"), for the period of April 1, 2015 through February 29, 2020.

### **Management's Responsibility for the Consolidated Special Purpose Financial Statement**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 TAF'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 TAF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the

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

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

### **Opinion**

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by TAF for the Cooperative Agreement No. SINLEC15CA0034, for the period of April 1, 2015 through February 29, 2020, in accordance with the basis of accounting described in Note 2.

### **Basis of Accounting**

We draw attention to Note 1 and Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation and accounting. As described in Note 1 and 2 to the Statement, the Statement is prepared by TAF on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 19, 2021 on our consideration of TAF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Agreement and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TAF's internal control over financial reporting and compliance.

### **Restriction on Use**

This report is intended for the information of TAF, the United States Department of State's, Bureau of International Narcotics and Law Enforcement Affairs, and the Special Inspector General for Afghanistan Reconstruction, 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.



Lake Forest, California  
May 19, 2021



## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

### Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	Questioned Costs			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
SINLEC15CA0034	<u>\$10,535,003</u>	<u>\$10,056,772</u>	\$ -	\$ -	\$ -	(4)
Total revenues	<u>10,535,003</u>	<u>10,056,772</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel Salary	1,096,836	1,063,162	-	50,847	50,847	(A)
Fringe Benefits	969,242	864,298	-	-	-	
Travel	465,505	329,330	-	-	-	
Contractual	1,955,903	1,664,370	1,960	26,047	28,007	(B)
Other Direct Costs	4,733,215	4,961,988	-	11,996	11,996	(C)
Indirect Costs	<u>1,314,302</u>	<u>1,173,624</u>	<u>-</u>	<u>10,528</u>	<u>10,528</u>	(D)
Total costs incurred	<u>\$10,535,003</u>	<u>\$10,056,772</u>	<u>\$ 1,960</u>	<u>\$ 99,418</u>	<u>\$ 101,378</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

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

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

Notes to the Special Purpose Financial Statement<sup>1</sup>

For the Period of April 1, 2015 through February 29, 2020

**(1) Basis of Presentation**

The accompanying Special Purpose Financial Statement ("Statement") includes costs incurred under the Department of State, Bureau of International Narcotics and Law Enforcement Affairs Cooperative Agreement number SINLEC15CA0034 for Legal Aid through Legal Education ("LALE") project during the period April 1, 2015 through February 29, 2020. Because the Statement presents only a selected portion of the operations of The Asia Foundation ("TAF"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of TAF. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Cooperative Agreement.

**(2) Basis of Accounting**

Expenditures reported on the Statement are reported on the cash basis of accounting. Such expenditures are recognized in accordance with the cost principles of the Uniform Guidance, 2 CFR 200 and 2 CFR 600, wherein certain types of expenditures are not allowable or are limited to reimbursement.

**(3) Foreign Currency Conversion Method**

For purposes of preparing the SPFS, conversions from local currency to the United States dollars were not required as transfer of funds from TAF's headquarters to its office in Afghanistan are U.S Dollar denominated. For the costs/expenditures incurred by the office in Afghanistan that were paid in Afghani (local currency) to U.S. dollars (reporting currency), TAF utilizes the exchange rate applied by the Afghanistan International Bank ("AIB") when the Afghanistan office transfers the requisite amount to meet the weekly payment requirements from its U.S dollar denominated account to Afghani denominated account.

**(4) Revenues**

Revenues on the Statement represent the amount of funds TAF received from the United States Department of State for allowable, eligible costs incurred under the Agreement during the period of performance.

**(5) Costs Incurred by Budget Category**

The budget categories reflect the budget line items presented within the final, approved Agreement and amendments, as applicable. All costs categories are aligned with its respective budget lines.

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<sup>1</sup> These Notes to the Special Purpose Financial Statement are the responsibility of The Asia Foundation.

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

Notes to the Special Purpose Financial Statement<sup>1</sup>

For the Period of April 1, 2015 through February 29, 2020

**(7) Reconciliation**

TAF submitted invoices on reimbursement basis. The final invoice represented cumulative expenditure for the life of Agreement period, and no refund is applicable.

**(8) Periods of Performance**

Pursuant to Federal regulations, allowable costs are limited to those obligations incurred during the period of performance of the Agreement. The periods of performance for the Agreement began on the day stated in the Agreement documents and the project duration was also stated in the Agreement documents unless an extension was approved. The original project period for Agreement No. SINLEC15CA0034 was April 1, 2015 through September 30, 2016 but was extended through February 29, 2020.

**(9) Status of Projects**

The project funded by the Agreement referenced in the Statement are implemented and closed. No additional charges are anticipated barring the adjustment of final NICRA for FY20.

**(10) Fund Balance**

There was no outstanding fund balance as of February 29, 2020 for the LALE project.

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<sup>1</sup> These Notes to the Special Purpose Financial Statement are the responsibility of The Asia Foundation.

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

For the Period of April 1, 2015 through February 29, 2020

**(A) Personnel**

TAF reported a total of \$1,063,162 for personnel costs for the period of April 1, 2015 through February 29, 2020. During our audit of these costs, we noted that employees certified timesheets prior to the last day of the timesheet period and were missing the signature of the employee, approver, or both on the timesheet, which resulted in total unsupported personnel costs of \$50,847. See Finding No. 2021-01 in the Schedule of Findings and Questioned Costs section of this report.

**(B) Contractual**

TAF reported a total of \$1,664,370 for contractual costs for the period of April 1, 2015 through February 29, 2020. During our audit of these costs, we noted:

- (1) TAF was not able to provide sufficient documentation in support of some travel costs. This resulted in total unsupported costs of \$3,256. See Finding No. 2021-03 in the Schedule of Findings and Questioned Costs section of this report.
- (2) TAF lacked allocation support for the costs incurred by its subgrantee organizations. This resulted in total unsupported costs of \$22,791. See Finding No. 2021-03 in the Schedule of Findings and Questioned Costs section of this report.
- (3) One subgrantee [REDACTED] incorrectly charged costs to the project in error. This resulted in total ineligible costs of \$1,960. See Finding No. 2021-03 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we have questioned \$1,960 in ineligible cost and \$26,047 in unsupported costs, totaling \$28,007 in questioned costs.

**(C) Other Direct Costs**

TAF reported a total of \$4,961,988 for other direct costs for the period of April 1, 2015 through February 29, 2020. During our audit of these costs, we noted that TAF was not able to provide sufficient documentation in support of some other direct costs. This resulted in total unsupported costs of \$11,996. See Finding No. 2021-02 in the Schedule of Findings and Questioned Costs section of this report.

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<sup>2</sup> These Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only, and as such, are not part of the audited Special Purpose Financial Statement.

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

For the Period of April 1, 2015 through February 29, 2020

**(D) Indirect Costs**

TAF reported a total of \$1,173,624 for Indirect Costs for the period of April 1, 2015 through February 29, 2020. The indirect costs associated with questioned costs identified in Notes A through C above resulted in total unsupported indirect costs of \$10,568. This resulted in total questioned indirect costs of \$10,528.

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<sup>2</sup> These Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only, and as such, are not part of the audited Special Purpose Financial Statement.

(Continued)



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors  
The Asia Foundation  
San Francisco, California, USA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of The Asia Foundation ("TAF") representing revenues received and costs incurred for the Cooperative Agreement ("Agreement") No. SINLEC15CA0034, awarded by the United States Department of State's Bureau of International Narcotics and Law Enforcement Affairs ("INL") for the period of April 1, 2015 through February 29, 2020, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 19, 2021 with an unmodified opinion.

### Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement of TAF for the period of April 1, 2015 through February 29, 2020, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Special Purpose Financial Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

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

Our consideration of internal control was for the limited purpose described in the 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify three deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2021-01, 2021-02, and 2021-03, which we consider to be significant deficiencies.

### **The Asia Foundations' Response to Findings**

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

### **Restriction on Use**

This report is intended for the information of TAF, United States Department of State, Bureau of International Narcotics and Law Enforcement Affairs, and the Special Inspector General for Afghanistan Reconstruction 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.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California  
May 19, 2021



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors  
The Asia Foundation  
San Francisco, California, USA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of The Asia Foundation ("TAF") representing revenues received and costs incurred for the Cooperative Agreement listed under the ("Agreement") No. SINLEC15CA0034, awarded by the United States Department of State's, Bureau of International Narcotics and Law Enforcement Affairs ("INL") for the period of April 1, 2015 through February 29, 2020, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 19, 2021 with an unmodified opinion.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether TAF's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2021-01, 2021-02, and 2021-03.

### **Asia Foundations' Response to Findings**

TAF's response to the findings identified in our audit is included verbatim in Appendix A. TAF'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.

**Restriction on Use**

This report is intended for the information of TAF, United States Department of State's, Bureau of International Narcotics and Law Enforcement Affairs, and the Special Inspector General for Afghanistan Reconstruction 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.

*Conrad LLP*

Lake Forest, California  
May 19, 2021

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

### Schedule of Findings and Questioned Costs

#### **Finding 2021-01: Completed timesheets did not follow The Asia Foundation's timekeeping policy**

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** Conrad tested 20 out of 60 employee's payroll records for 26 pay periods totaling 282 timesheets to determine if the costs incurred under the program were adequately supported, accurate, and properly approved. During the testing, we noted the following exceptions and questioned costs:

- In 1 instance, the timesheet submitted by the employee was certified two days prior the end of pay period. This resulted in questionable costs of \$2,480.
- In 74 instances, the timesheets submitted by 11 employees were missing the signature and/or date by the employee, approving supervisor, or both. See details below:

Description of Finding	No. of Instances	Amount
Timesheets missing date of supervisor approval	42	\$ 30,291
Timesheets missing date and signature of supervisor	3	2,687
Timesheets missing date of employee submission	18	8,443
Timesheets missing date of employee submission and supervisor approval	11	6,946
<b>Total</b>	<b>74</b>	<b>\$ 48,367</b>

#### **Criteria:**

**Asia Foundation's Timekeeping Policy**, states in part:

"Timesheets are due every two weeks by the end of your workday on the last Friday of the bi-weekly period...It is the supervisor's responsibility to ensure that their staff's timesheets are signed and approved on time. Repeated late timesheet offenders will be subject to disciplinary action..."

**2 CFR 200.303, Internal Controls**, states, in part:

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

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
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Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

### Schedule of Findings and Questioned Costs

**2 CFR 200.430 (i), *Standards for Documentation of Personnel Expenses*** – , states in part:

“(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:...(v) Comply with the established accounting policies and practices of the non-Federal entity...”

**Cause:** TAF did not adhere to its timekeeping policy and did not have procedures in place to ensure that staff and supervisors were correctly adhering to its policy.

**Effect:** Lack of adherence to internal policies increases the risk of unallowable costs to be charged to the U.S. government.

**Questioned Costs:** We identified \$50,847 unsupported costs and \$8,548 associated indirect costs, which resulted in \$59,395 in total questioned costs.

#### **Recommendation:**

- (1) We recommend that TAF provide additional support to determine the validity of the timesheets or return \$59,395 of unsupported costs.
- (2) We recommend that TAF train staff and supervisors on its timekeeping policy.
- (3) We recommend that TAF develop a monitoring procedure to ensure staff and supervisors are adhering to its timekeeping policy.

(Continued)

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
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For the Period of April 1, 2015 through February 29, 2020

### Schedule of Findings and Questioned Costs

#### Finding 2021-02: Missing evidence to support the cost incurred during the project

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** Conrad tested 212 out of 145,037 Other Direct Costs ("ODC") to determine if the costs incurred under the program were adequately supported and allowable. During the testing, we noted, 6 transactions where documentation related to procurement, invoices, and travel authorizations were not provided, see details below:

Description of Finding	No. of Instances	Amount
Bidding and procurement were not provided	4	\$ 11,619
Invoices were not provided	1	193
Travel Authorization was not provided	1	184
<b>Total</b>	<b>6</b>	<b>\$ 11,996</b>

#### Criteria:

**Asia Foundation's Record Retention and Destruction Policy**, states in part:

"To facilitate records management, listed records are retained: permanently, for 15 years, for 7 years, for 3 years, or just the current version. Foundation records include all records produced by employees, whether paper or electronic. Emails are 'records' and 'documents', as are photos and phone record. There should be no assumption of privacy in Foundation emails."

**2 CFR 200.303, Internal Controls**, states in part:

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

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

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

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...
- (g) Be adequately documented..."

**Cause:** TAF did not retain documentation as required by its retention policy to ensure that all supporting documents related to procurement were retained and made available in a timely manner.

(Continued)

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
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Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

Schedule of Findings and Questioned Costs

**Effect:** The lack of sufficient evidence for costs claimed increases the risk that the cost of goods or services charged to the US government was actually incurred and allowable in carrying out the program's objectives.

**Questioned Costs:** We identified \$11,996 in unsupported costs and \$1,980 associated indirect costs, which resulted in \$13,976 in total questioned costs.

**Recommendation:**

- (1) We recommend that TAF provide the appropriate source documentation to properly substantiate that the costs claimed were allowable or return \$13,976 of unsupported costs.
- (2) We recommend that TAF train staff on its record retention policy to ensure that costs incurred are supported and allowable.
- (3) We recommend that TAF develop management controls to ensure that documentation supporting costs incurred are retained as required by its retention policy.

(Continued)

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
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Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

### Schedule of Findings and Questioned Costs

#### **Finding 2021-03: Lack of adequate monitoring over subgrantees**

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** Conrad selected two out of the four subgrantees and tested expenditures associated with 11 out of the 56 vouchers to determine if the costs were supported, accurate, and properly approved. There were a total of 331 invoices, including subgrantees' personnel and other direct costs, associated with the 11 vouchers. During our testing, we noted the following:

- In 6 invoices tested, TAF was unable to provide any supporting document to support the cost invoiced.
- In 61 invoices tested, the subgrantee was charging costs based on the percentage that was pre-approved in the budget rather than actual percentage supported by an adequate actual allocation methodology for the costs incurred.
- In 1 invoice tested, a subgrantee charged costs that was not related to the LALE project.

#### **Criteria:**

**Asia Foundation's Making Subawards Guide, "Subaward Management Process"**, states in part:

"Post Award:

- Educate subawardees on the terms of the agreement and the donor's flow down rules (e.g. Child Protection Policy) making sure that terms are understood and complied;
- Monitor activities and report submission
- Conduct financial review and perform site visits, as necessary..."

**Asia Foundation's Standard Contract Agreement with Subgrantees, Attachment-I titled "Special Terms and Conditions"**, states in part:

"In addition to the certified TAF 209 (The Foundation's financial reporting format). The financial report must include the following attachments:

- Copies of bank statements during the period of the financial report
- Expenditures summary or ledger (preferable in excel)
- Supporting documents for all expenditures i.e. vouchers, receipts, payroll ledgers, etc."

(Continued)

## The Asia Foundation

Financial Audit of Costs Incurred Under  
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For the Period of April 1, 2015 through February 29, 2020

### Schedule of Findings and Questioned Costs

**2 CFR 200.405 (d), Allocable costs – Direct cost allocation principles**, states, in part:

“If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, notwithstanding paragraph (c) of this section, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis...”

**2 CFR 200.430 (i), Standards for Documentation of Personnel Expenses**, states, in part:

“... (viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes...”

(C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal award based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated...”

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

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

- (b) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...
- (g) Be adequately documented...”

**Cause:** Due to the insufficient training of TAF personnel, TAF did not perform sufficient monitoring or conduct a proper financial review of its subgrantee's financial reports to ensure that costs claimed were supported, eligible, and allocable in accordance with the contract and federal regulations.

**Effect:** TAF's failure to adhere to its monitoring process over its subgrantees resulted in ineligible and unsupported costs being charged to the U.S. government. In addition, the lack of sufficient evidence for costs claimed increases the risk that the cost of goods or services charged to the US government was actually incurred and allowable in carrying out the program's objectives.

**Questioned Costs:** We identified \$26,047 in unsupported costs and \$1,960 in ineligible costs, which resulted in \$28,007 combined total questioned costs. There were no indirect costs applied to these subgrantee's costs tested which is consistent with TAF's approved NICRA.

**Recommendation:**

- (1) We recommend that Asia Foundation return the ineligible cost of \$1,960.

(Continued)

## **The Asia Foundation**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
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Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

### Schedule of Findings and Questioned Costs

- (2) We recommend that Asia Foundation provide the appropriate source documentation to properly substantiate that the costs claimed were allowable or return \$26,047 of unsupported costs.
- (3) We recommend that Asia Foundation develop additional controls including secondary review on subgrantees' financial reports submission and provide training to its staff over its subaward management process to ensure that all costs incurred are adequately supported, allocated, and accurate.

(Continued)



## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
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Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

### Status of Prior Audit Findings

We requested prior audit reports, evaluations, and review from TAF, SIGAR, USAID pertaining agreement activities under this audit. We identified four prior audit reports which contained five findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. Conducted follow up procedure included discussion TAF's management and performing testing of similar activities during our audit. We determined that TAF had taken adequate corrective action on the four of the five findings and one finding still remains open. We have summarized the results of our procedures below:

- (1) SIGAR Financial Audit 20-02 (USAID's Afghan Ministry of Women's Affairs Organizational Restructuring and Empowerment Project) - Cooperative Agreement No. AID-306-A-13-00001 for the period of December 20, 2015 through December 19, 2016.

#### **Finding No. 2019-1: Noncompliant Selection of Consultants**

**Issue:** TAF did not follow the consultant selection process outlined within its employee handbook for five samples, which were identified as consultant costs.

**Status:** For the current engagement, we reviewed TAF's policies, procedures and flowcharts for the consultant procurement and selected consultants hired during the audit period for testing. We noted that all consultants followed TAF's consultant selection process. As such, we concluded that TAF has taken adequate corrective action on this finding.

- (2) Single audit conducted by TAF on compliance with the U.S. Office of Management & Budget (OMB) performed by an external accounting firm on each major federal program for the year ended September 30, 2017 noted the following finding:

#### **Finding No. 2017-01: Significant deficiency in internal controls over subrecipient monitoring**

**Issue:** Internal controls over subrecipient monitoring and management during the subaward issuing and modification processes were not fully implemented to ensure that the CFDA number was included in all subawards to subrecipients.

**Status:** We reviewed the procurement and monitoring policies created by TAF over its subgrantees/subrecipient and selected subgrantee/subrecipient agreements for testing. We noted that all award agreements between TAF and its subgrantees/subrecipients included the CFDA number. As such, we concluded that TAF had taken adequate corrective action on this finding.

- (3) USAID's Financial audit of the cost incurred under USAID's AUAF-Financial and Business Management Activity (AUAF-FMBA) program (Contract No. AID-306-C-17-00014) for the period

## The Asia Foundation

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

of July 5, 2017 to September 30, 2018 and Survey of the Afghanistan People (SAP) program (Grant No. AID-306-G-12-00003), for the period of April 1, 2018 to September 30, 2018, conducted by an external accounting firm on behalf of USAID noted the following findings:

### **Finding No. 1: Salaries Exceeded NTA Scales**

**Issue:** TAF did not comply with the required compensation limit established for CCN employees by the NTA salary scale guideline for the SEA II project.

**Status:** Based on USAID's management decision memorandum dated November 25, 2020, USAID determined that TAF is not required to adhere to the Government of the Islamic Republic of Afghanistan (GIRoA) requirement of using the National Technical Assistance (NTA). As such, we determined that no follow-up was required.

- (4) USAID's Office of Inspector General (OIG) audit of costs incurred by TAF under (1) International Election Observation (IEO), Cooperative Agreement No. AID-306-A-14-00012, for the period August 4, 2014, to January 5, 2015 (Closeout); (2) Strengthening Education in Afghanistan (SEA II), Cooperative Agreement No. AID-306-A-14-00008, for the period May 19, 2014, to September 30, 2015; (3) Survey of the Afghanistan People Program (SAP), Grant No. AID-306-G-12-00003, for the period October 11, 2012, to September 30, 2015; and (4) Ministry of Women Affairs Organizational Restructuring and Empowerment (MORE), Cooperative Agreement No. AID-306-A-13-00001, for the period July 1, 2014, to December 19, 2015 (Report No. F-306-17-012-N) conducted by an external accounting firm on behalf of the OIG noted the following findings:

### **Finding No. 2016-01: Inadequate supporting documentation for procurement**

**Issue:** Adequate supporting documentation such as procurement competition or sole source justification memo was not available for some consultant and insurance costs.

**Status:** We reviewed TAF's policies, procedures and flowcharts for the procurement process and tested insurance and consultant costs. We noted that all costs associated with insurance and consultants were adequately supported by procurement documentation. As such, we concluded that TAF had taken adequate corrective action on this finding.

### **Finding No. 2016-02: Ineligible costs**

**Issue:** Costs found Ineligible under the terms of the agreement between TAF and its contractor.

**Status:** TAF stated that it had properly addressed this finding to ensure that no ineligible costs were included for reimbursement. However, during our testing procedure, we identified that an ineligible cost for office rent associated with one of its subgrantees was charged to the program incorrectly. As such, we concluded that this finding has not been properly corrected and repeated again. See Finding 2021-03 of this audit report.

**The Asia Foundation**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

The Asia Foundation's Responses to the Audit Findings

Included on the following pages are Asia Foundation's responses received to the findings identified in this report.



# The Asia Foundation

May 12, 2021

Mr. Sam Perera

Partner

Conrad LLP

F206 – Closeout Audit of Cooperative Agreement SINLEC 15CA0034

Dear Mr. Perera,

With reference to the captioned audit, I take this opportunity to submit The Asia Foundation (TAF) management responses on the audit findings incorporated in the draft audit report.

We take this opportunity to thank Conrad LLP for the patience and understanding during the audit process. With TAF/Afghanistan undergoing audits of 5 awards (conducted by three different audit firms), we are thankful for Conrad’s flexibility on revisiting the deadlines on several occasions.

Our management responses on the three categories of questioned costs are as follows:

**Finding 2021-01 – Personnel Salary**

Condition: Conrad tested 20 out of 60 employee’s payroll records for 26 pay periods totaling 282 timesheets to determine if the costs incurred under the program were adequately supported, accurate, and properly approved. During the testing, we noted the following exceptions and questioned costs:

1. In 1 instance, the timesheet submitted by the employee was certified two days prior the end of pay period. This resulted in questionable costs of \$2,480.
2. In 74 instances, the timesheets submitted by 11 employees were missing the signature and/or date by the employee, approving supervisor, or both. See details below:

<b><u>Description of Finding</u></b>	<b><u>No. of Instances</u></b>	<b><u>Amount</u></b>
Timesheets missing date of supervisor approval	42	\$ 30,291
Timesheets missing date and signature of supervisor	3	2,687
Timesheets missing date of employee submission	18	8,443
Timesheets missing date of employee submission and supervisor approval	11	6,946
<b>Total</b>	<b>74</b>	<b>\$ 48,367</b>

### **TAF Management Response:**

1. The questioned timesheet submitted in advance, represents timesheet submitted by [REDACTED], Law and Governance Specialist.

The Foundation's timekeeping policy, in general advises that timesheets are processed after the work is completed, and this mainly aims at staff who work on multiple projects, and are not in a position to speculate their hours to respective projects for future days. The system still does not restrict time charging in advance, especially given that staff affiliated with one single project, do not have such confusion on hours by project.

Additionally, it may be kindly noted that TAF/Afghanistan observes the weekend days of Friday and Saturday, which makes the timesheet submission a day earlier to TAF standard bi-weekly pay period end day of each subsequent Fridays. The time stamping recorded in the timesheet "Feb 8, 2017: 11:10:46 PM" represents Feb 9<sup>th</sup> of Kabul Standard time, and is the end day of bi-weekly pay period cycle.

In our final round of clarifications, we had submitted "PST Selections – Timesheets without signatures dates.pdf" capturing the entire process of timesheet submission and processing of payroll. During the payroll testing, we had provided the specific report "Timesheet Batch Report" having the date the batch report was finalized. With the clarifications provided in the writeup, it is evident that the payroll processing is not possible without submission of all timesheets by all employees. Both staff and supervisor place their signatures on the hard copies to endorse that they have actually submitted (electronically) and reviewed the timesheets on timely basis. Not mentioning the dates is an honest mistake on part of both employees and supervisors. To address this, effective June 2020, TAF/Afghanistan office introduced web-based submission and approval of timesheets (known as timesheet app), which records and stamps date and timing of submissions and approvals. Adequate training has been provided to all staff on this new process, and as stated above, unless cent percent timesheets are received and approved, the bi-weekly payroll payments are not possible.

In addition to our clarifications above, we would also like to ensure that apart from the "Timekeeping Policy" TAF has adequate policies and controls to address correctness of time charging. Adequate steps are carried out to ensure that hours captured by individual projects are correct. These steps include, but not limited to:

- Review of monthly project reports, jointly carried out by finance and project staff.
- Periodic training provided to project staff, to educate them on how to read the project reports and address to discrepancies. We have uploaded a sample email substantiating the regular training sessions provided (ref: Sample email – Project Staff Training).
- Timesheet corrections, whenever warranted, require close review and approval by designated authority in TAF HQ, and the process requires reasonable justification on the reason for wrong time charging and the correction required.

Kindly refer to following additional submission to substantiate TAF's efforts on reviews and controls maintained:

- Sample email – Project Staff Training.oft

- Sample Training Material – Project Staff Training.ppt

Additionally, during the field testing, several selections included timesheet corrections, which is adequate to substantiate TAF’s effort on ensuring correctness of labor charges applied to individual projects.

**Finding 2021-02: Missing evidence to support the cost incurred during the project**

Condition: Conrad tested 212 out of 145,037 Other Direct Costs (“ODC”) to determine if the costs incurred under the program were adequately supported and allowable. During the testing, we noted, 13 instances where documentation related to procurement, invoices, agenda/attendance, and travel authorizations were not provided, see details below:

<b><u>Description of Finding</u></b>	<b><u>No. of Instances</u></b>	<b><u>Amount</u></b>
Bidding and procurement were not provided	5	\$ 11,817
Invoices were not provided	3	1,012
Training certificates, agenda and attendance logs were not provided	4	946
Travel Authorization was not provided	1	184
<b>Total</b>	<b>13</b>	<b>\$ 13,959</b>

**TAF Management Response:**

We apologize for the delay in retrieving several documents related to ODC and IOC selections. Owing to “work from home” modality, added with the challenge of retrieving these documents from our hard copy storage area, we could not meet the deadline earlier. Barring three IOC selections, we have been able to submit following documents. Kindly refer to the following uploads:

1. ODC 30 – Consultant selection procurement documentation.pdf
2. IOC 69 – CDW Direct – Procurement Documentation
3. IOC 85 – GRN
4. IOC 120 – Evidence of training participation and GSA table
5. IOC 122 – Evidence of training participation, passport fee and GSA table
6. IOC 124 – Copy of TA
7. IOC 126 – Training program agenda
8. IOC 147 – Training agenda, participant list and procurement request
9. IOC 149 – Training certificates – all 3 staff

**Finding 2021-03 – Contractual**

Condition: Conrad selected two out of the four subgrantees and tested expenditures associated with 11 out of the 56 vouchers to determine if the costs were supported, accurate, and properly approved. There were a total of 331 invoices, including subgrantees’ personnel and other direct costs, associated with the 11 vouchers. During our testing, we noted the following:

1. In 16 invoices tested, TAF was unable to provide any supporting document to support the cost invoiced.

2. In 61 invoices tested, the subgrantee was charging costs based on the percentage that was preapproved in the budget rather than actual percentage supported by an adequate actual allocation methodology for the costs incurred.
3. In 1 invoice tested, a subgrantee charged costs that was not related to the LALE project.

**TAF Management Response:**

1. We take this opportunity to respectfully reiterate that fact that during the period of field testing, TAF was undergoing audits of 5 USG awards, commissioned by USAID and SIGAR and audited by 3 different audit firms. Additionally, owing to the issue of COVID pandemic, we were on “work from home” modality. With all these, TAF had ensured that all requested documents were provided on time. However, the questioned cost related to 16 invoices, represented the documents maintained by the sub awardees. Despite of our best effort, given the tight deadline, we were not able to redact all documents from the sub awardees. We have since been able to retrieve all these, and have uploaded the same in Conard SharePoint.
2. As explained during the field testing, local NGOs in Afghanistan maintain a simplified accounting system. They do not have the capability of pooling the overhead costs and distributing the same in accordance number of total projects managed by them. Accordingly, in order to ensure reasonableness of overhead costs, TAF follows following measures:
  - I. Per 2 CFR 200.405 (d) Direct Cost Allocation Principle, ensure that the subrecipient indirect cost pool is thoroughly examined. For this, TAF’s subrecipient budget template warrants that all indirect costs are fully disclosed with following details:
    - Actual Monthly Gross/Unit Rate
    - Quantity
    - Time/Unit
    - Percentage
    - Amount (proposed under TAF budget)

TAF reviews these keeping in view the other projects managed by the subrecipients and weighted budget for individual project(s). The non-labor indirect cost (utilities, supplies, communication etc) are negotiated to certain percentage, ensuring that these costs are distributed to applicable projects monthly using the actual cost incurred.

In terms of labor cost, TAF determines the minimal level of effort required by the subrecipient staff. Not that all staff of subrecipient organization are covered, and only those deemed necessary for project work are considered.

Based on above process, TAF approved overhead percentage for the two organizations as follows:

██████ (five active projects in 2018)

Non-labor overhead expenses - 20% - (Divided over 5 projects)

Labor costs – 14% (Executive Director) - 30% (Finance/HR Manager) – (Based on the size and complexity of the projects and also on the basis of staff directly allocated to other projects)

██████ (4 active projects in 2019)

Non-labor overhead expenses - 30% (covered only office rent of ██████ Kabul office) – (Approx. division over 4 projects)

Labor costs – 10% (Executive Director) - 30% (Admin/Finance Officer) – (Based on the size and complexity of the projects and also on the basis of staff directly allocated to other projects)

TAF ensures that the financial reports submitted by the subrecipients included indirect costs are not merely claimed per agreed percentages, but supported by actual invoices. Summary of approved budget and monthly expenses were shared, wherein no significant variance was recorded.

In any instance of variation, TAF sought proper explanation from the subrecipient before approving the financial reports submitted. During the field audit process, we had provided several documents elaborating TAF's review process, questions/concerns from TAF on the documentation and cost application, and the final decision made (whether the cost was approved based on additional clarification and documentation, or whether the cost was disallows by TAF and the subrecipient was asked to re-submit the financial report reduced by removing the disallowed cost).

- II. It would also be worth reiterating that TAF secured prior approval from INL on all subrecipient budgets.
- III. We would also take this opportunity to mention consistent to our submission under finding 2021-0, the several audits conducted between 2015-2020 had thoroughly tested the subrecipient budget, overhead cost components and subrecipient financial reporting. These audits, after review of subrecipient budget and the subrecipient financial reports, accepted the aspect of indirect cost (overhead) paid to the subrecipients.
3. We agree to the question cost of \$1,960. One of the subrecipients ██████ had charged office rent beyond the project period, and TAF has already initiated the process of recovering this cost from the subrecipient and remit the fund to the donor.

Before concluding, we once again take this opportunity to thank Conrad audit team for the cooperation and flexibility during the audit process. Please do not hesitate to reach me, should



you require additional clarifications and/or documents relates to our management responses above.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ken Krug', written over a circular scribble.

Ken Krug  
Vice President, Finance and Chief Financial Officer

**The Asia Foundation**

Financial Audit of Costs Incurred Under  
Cooperative Agreement No. SINLEC15CA0034 Awarded by Department of State's  
Bureau of International Narcotics and Law Affairs  
Legal Aid through Legal Education (LALE)

For the Period of April 1, 2015 through February 29, 2020

Auditor's Rebuttal to TAF's Responses to Audit Findings

TAF did not agree with Finding 2021-01, 2021-02 and partially agreed with finding 2021-03 and provided a response to each finding. We have reviewed TAF's responses and provided the following rebuttals:

**(1) 2021-01: TAF did not agree with the finding and provided the following response:**

- a. In response to the questioned cost related to the timesheet submitted in advance, TAF stated that its general policy of submitting timesheets at the end of two weeks applies to employees working on multiple projects and the system does not restrict time charging in advance for staff affiliated with a single project. In addition, since Afghanistan observes Friday and Saturday as weekends, the timesheet submitted on February 8, 2017 represented February 9, 2017 Kabul time, making the submission a day early.
- b. In response to the questioned cost related to timesheets missing the signature and/or date by the employee, approving supervisor, or both, TAF's response included two parts:
  - TAF stated that it was an honest mistake on the part of both the employee and the supervisor. The batch processing reports provided for the pay period served as evidence for the timely processing of payroll. In addition, TAF stated that effective June 2020, TAF introduced a web-based submission and approval of timesheets which will automatically date and time stamp the timesheets, and that the staff has been provided adequate training on the new process.
  - TAF stated that apart from its timekeeping policies, it has adequate controls to ensure that the hours captured on individual projects are correct and the timesheet corrections noted during the testing provide evidence to substantiate the same.

Auditor Rebuttal:

- a. TAF's response for the questioned cost related to timesheet submitted in advance does not resolve the finding. The timesheet in question was related to a personnel working on multiple projects, on the weekend, with timesheet submitted a day early which still violated TAF's timekeeping policy.
- b. With respect to the question cost related to missing signatures, TAF concurred that a mistake was made on both the supervisor and staff that the timesheet was not signed and approved. In addition, the processing of payroll documented through batch reports does not provide sufficient evidence that the timesheet submitted by the employee was timely and was reviewed by the supervisor to ensure that all time charged to the project was appropriate.

TAF did not provide any new or additional documentation related to this finding. As such, our finding and recommendation remains unchanged.

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Auditor's Rebuttal to TAF's Responses to Audit Findings

**(2) 2021-02: TAF agreed to the finding but uploaded additional document in support of each missing support transaction in question:**

Auditor's Rebuttal:

Auditor reviewed each additional upload and accepted the transaction in referenced to IOC 69, IOC 85, IOC 120, IOC 122, IOC 126, IOC 147, and IOC 149. This has resolved 7 out of the 13 transactions in questioned. We have also updated the report to remove the cost associated with these transactions been questioned. For the following transactions, the auditors have reviewed the additional documentation uploaded along with the management response but did not accept the documents for the following reasons:

- ODC 30 – We did not receive supporting documentation for bidding and procurement along with the management response.
- IOC 124 – We did not accept the supporting documentation as the Travel Authorization provided was for an incorrect timeframe.

**(3) 2021-03: TAF partially agreed to the finding and provided the following response:**

- a. TAF stated they were unable to provide the support on-time due to tight deadline and 5 undergoing audits. TAF uploaded support for all 16 invoices along with the management responses.
- b. In response to the questioned cost related to charging costs based on a pre-approved budget percentage rather than actual than an actual allocation methodology, TAF disagreed with the finding and stated that local NGO's maintain a simplified accounting system and do not have the capability to pool costs and distribute them according to the projects managed by them. TAF ensures the reasonableness of costs using the 2 CFR 200.405 (d) direct cost allocation principle. Non-labor costs are negotiated to a certain percentage, and labor costs are determined based on the level of effort required by subrecipient staff. In addition, financial reports submitted by subgrantees are supported by actual invoices, and an explanation is sought for any instances of variations.
- c. TAF agreed that one of the transaction was charged to the program in error.

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Auditor's Rebuttal to TAF's Responses to Audit Findings

Auditor Rebuttal:

- a. Auditors reviewed the additional documents uploaded and accepted 10 out of 16 invoices in question and updated the report accordingly. For the remaining 6 invoices, we did not accept the documentation due to reasons stated below:
  - In 4 invoices, the supporting documentation was still missing.
  - In 2 invoices, the documentation uploaded had already been reviewed by the auditor during the fieldwork and no new documentation was provided to support the transactions.
  
- b. TAF's response to the questioned cost charged based on a pre-approved budget percentage rather than actual cost allocation does not resolve the finding. The subgrantee organizations have a cost allocation mechanism in place for its labor costs even there is a budgeted amount. With the organizations running multiple projects, without having an allocation based on actual costs incurred, it is difficult to determine if the cost charged by the subgrantee was adequately allocated to the program. In addition, TAF agreed that one of the subgrantee's invoices was charged to the program by error. This further substantiates the need for a stricter review of the costs submitted by the subgrantees. TAF did not provide any new or additional documentation related to this finding. As such, our finding and recommendation for this part of the finding remains unchanged.

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- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
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- prevent fraud, waste, and abuse; and
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