

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 21-44 Financial Audit**

Department of State's Supporting Access to Justice  
in Afghanistan Programs: Audit of Costs Incurred by  
the International Development Law Organization  
Identified \$2.3 Million in Questioned Costs

**AUGUST  
2021**



# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On September 16, 2014, and October 1, 2017, the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (State) signed Letters of Agreement awarding \$31,076,496 to the International Development Law Organization (IDLO) for the Supporting Access to Justice in Afghanistan programs. The agreements' objectives included improving the quality and awareness of legal aid service providers, encouraging use of Afghanistan's formal justice system, supporting the Afghan Attorney General's Office to better investigate and prosecute violent crimes against women and children, and building the capacity and sustainability of women's protection centers. After four modifications, the agreements' total funding increased to \$37,435,669, and the period of performance was extended through October 31, 2017, and October 31, 2020, respectively.

SIGAR's financial audit, performed by Conrad LLP (Conrad) reviewed \$33,524,788 in costs charged to the agreements from September 16, 2014, through February 28, 2020. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in IDLO's internal controls related to the agreements; (2) identify and report on instances of material noncompliance with the terms of the agreements and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether IDLO has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of IDLO'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.

August 2021

Department of State's Supporting Access to Justice in Afghanistan Programs: Audit of Costs Incurred by the International Development Law Organization Identified \$2.3 Million in Questioned Costs

SIGAR 21-44-FA

### WHAT SIGAR FOUND

Conrad identified two material weaknesses and three significant deficiencies in IDLO's internal controls, and five instances of noncompliance with the terms of the agreements. For example, Conrad's report indicated IDLO used budgeted amounts, instead of documented time spent on programs, as the basis to charge personnel costs to the programs. This practice, combined with documentation issues and other irregularities, raised substantial doubt about the accuracy and allocability of personnel costs charged to the programs. In another example, IDLO could not demonstrate how direct cost charges for headquarter staff were distinct from the costs charged as overhead; IDLO assessed direct charge amounts for duties included in the overhead rate, indicating it may have charged State twice for the services. In a final example, IDLO allocated costs to the programs without supporting documentation.

Because of the aforementioned issues, Conrad identified \$2,284,472 in total questioned costs, consisting of \$2,276,807 in unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$7,665 of ineligible costs—costs prohibited by the agreements and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Personnel	\$0	\$489,590	\$489,590
Fringe Benefits	\$0	\$37,782	\$37,782
Training	\$0	\$72,448	\$72,448
Equipment	\$74	\$12,152	\$12,226
Contractual	\$0	\$303,546	\$303,546
Operating Costs	\$6,770	\$101,826	\$108,596
Other Direct Costs	\$0	\$1,015,520	\$1,015,520
Indirect Costs	\$821	\$243,943	\$244,764
<b>Total Costs</b>	<b>\$7,665</b>	<b>\$2,276,807</b>	<b>\$2,284,472</b>

Conrad did not identify any prior engagements pertinent to IDLO's activities under the agreements that could have a material effect on the SPFS.

Conrad issued a modified opinion on IDLO's SPFS, due to the material amount of questioned costs, and substantial doubts regarding other costs charged to the agreements.

### WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$2,284,472 in questioned costs identified in the report.**
- Advise IDLO to address the report's five internal control findings.**
- Advise IDLO to address the report's five noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

August 11, 2021

The Honorable Antony J. Blinken  
Secretary of State

Mr. Dean Thompson  
Acting Assistant Secretary  
Bureau of South and Central Asian Affairs

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

We contracted with Conrad LLP (Conrad) to audit the costs incurred by the International Development Law Organization (IDLO) under two Letters of Agreement for the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs' (State) Supporting Access to Justice in Afghanistan programs.<sup>1</sup> The agreements' objectives included improving the quality and awareness of legal aid service providers, encouraging use of Afghanistan's formal justice system, supporting the Afghan Attorney General's Office to better investigate and prosecute violent crimes against women and children, and building the capacity and sustainability of women's protection centers. Conrad reviewed \$33,524,788 in costs charged to the agreements from September 16, 2014, through February 28, 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, \$ 2,284,472 in questioned costs identified in the report.**
- 2. Advise IDLO to address the report's five internal control findings.**
- 3. Advise IDLO to address the report's five 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 IDLO's Special Purpose Financial Statement. We also express no opinion on the effectiveness of IDLO's internal control or compliance with the agreements, 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 completion of 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-195)

<sup>1</sup> The agreement numbers are SINLEC17VC0242 and SINLEC17VC0289.

**International Development Law Organization (IDLO)**

Financial Audit of Costs Incurred Under Agreement Nos. SINLEC17VC0242 and  
SINLEC17VC0289 Awarded by State Department Bureau of International Narcotics and  
Law Enforcement Affairs (INL)

Supporting Access to Justice in Afghanistan (SAJA) Programs

For the period September 16, 2014 through February 28, 2020

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May 17, 2021

Director General  
International Development Law Organization  
Rome, Italy

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

Conrad LLP hereby provides to you our final report, which reflects results from the procedures we completed during our audit of International Development Law Organization ("IDLO") Special Purpose Financial Statement for costs incurred under two Letters of Agreement numbers SINLEC17VC0242 and SINLEC17VC0289 awarded by the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs for the period of September 16, 2014 through February 28, 2020.

On January 18, 2021, we provided SIGAR with a draft report reflecting our audit procedures and results. IDLO received a copy of the report on March 22, 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 IDLO. IDLO's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you and to conduct the audit of these Letter of Agreements.

Sincerely,

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

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

**International Development Law Organization (IDLO)**  
**Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289**  
**Supporting Access to Justice in Afghanistan (SAJA) Programs**

For the period September 16, 2014 through February 28, 2020

**Background**

On September 16, 2014 and October 1, 2017, the U.S. Department of State’s Bureau of International Narcotics and Law Enforcement Affairs (“INL”) entered into Letters of Agreement (agreements) with the International Development Law Organization (“IDLO”) for the Supporting Access to Justice in Afghanistan (“SAJA”) programs. IDLO was tasked with the following principal objectives:

1. Improving the quality and awareness of legal aid service providers for criminal defenders to inform and encourage Afghan citizens to take legal disputes to the formal justice system.
2. Supporting the Afghan Attorney General’s Office to better investigate and prosecute violence against women and increase the number of women and children that bring violence cases to the formal justice system.
3. Building the capacity and sustainability of women’s protection centers to support survivors of violence and trafficking.

The first agreement, SINLEC17VC0242, was valued at \$14,576,496 and its period of performance ran from September 16, 2014 through February 17, 2017. After two modifications total funding increased to \$17,115,444 and the period of performance was extended through October 31, 2017.

The second agreement, SINLEC17VC0289, was valued at \$16,500,000 and its period of performance ran from October 1, 2017 through February 28, 2020. After two modifications, total funding increased to \$20,320,225 and the period of performance was extended to October 31, 2020.

**Summary of Agreements**

Agreement Number	Original			As Amended		
	Cost (\$)	Start	End	No. of Modifications	Total Final Budget (\$)	End
SINLEC17VC0242*	\$14,576,496	09/16/2014	02/28/2017	2	\$17,115,444	10/31/2017
SINLEC17VC0289*	16,500,000	10/01/2017	02/28/2020	2	20,320,225	10/31/2020
<b>Total:</b>	<b>\$31,076,496</b>			<b>4</b>	<b>\$37,435,669</b>	

\*Indicates the agreement was modified.

IDLO is an intergovernmental organization exclusively devoted to promoting the rule of law and sustainable development. IDLO was established in 1988 and has had United Nations Observer status since 2001. IDLO was preceded by the International Development Law Institute which was established in 1983 as a non-

**International Development Law Organization (IDLO)**  
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governmental organization to provide training and technical assistance to lawyers and other legal professionals from developing countries.

**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 IDLO’s SAJA programs for costs incurred under agreements SINLEC17VC0242 and SINLEC17VC0289 for the period September 16, 2014 through February 28, 2020.

A summary of the program to be audited is as follows:

Agreement No.	Agreement Period		Audit Period		Audit Amount
	Start	End	Start	End	Cost (\$)
SINLEC17VC0242	09/16/2014	10/31/2017	09/16/2014	10/31/2017*	\$17,080,951
SINLEC17VC0289	10/01/2017	10/31/2020	10/01/2017	02/28/2020**	16,443,837
<b>Total:</b>					<b>\$33,524,788</b>

\* Close-out Audit

\*\*The agreement was modified twice, granting two extensions which resulted in a final period of performance until October 31, 2020. However, for the purposes of this engagement the audit period for this agreement was October 1, 2017 through February 28, 2020.

**Objectives, Scope, and Methodology**

**Audit Objectives**

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

- *Special Purpose Financial Statement (“SPFS”)* – Express an opinion on whether IDLO’s SPFS for the awards presents fairly, in all material respects, the 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 awards and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of IDLO’s internal controls related to the awards; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.



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Supporting Access to Justice in Afghanistan (SAJA) Programs

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- *Compliance* – Perform tests to determine whether IDLO complied, in all material respects, with the awards requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with the terms of the awards 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 IDLO has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

**Scope**

The scope of this audit included all costs incurred during the period of September 16, 2014 through February 28, 2020 totaling \$33,524,788 under the agreements. 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 each of the agreements and subsequent applicable modifications.

US Department of State made the determination that IDLO, as an intergovernmental organization, is not subject to 2 CFR 200 regulations. Consequently, our review of the SAJA programs was limited to evaluating costs incurred against the terms of the awards.

**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 May 17, 2020, with representatives of IDLO, Conrad, SIGAR, and INL 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 IDLO;
- Reviewed the agreements and Modifications;
- Reviewed regulations specific to State that are applicable to the agreements;
- Performed a financial reconciliation; and

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For the period September 16, 2014 through February 28, 2020

- Selected samples based on our 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 or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appear to contain unallowable and restricted items according to the terms of the agreements, and any other applicable regulations, we tested 100% of the transactions.
  - For related party transactions, we did not identify any related party transactions.
  - For high-risk cost categories, we sampled transactions greater than \$167,600 not to exceed 30% of the total amount expended for each cost category.
  - For medium risk cost categories, we sampled transactions greater than \$335,200 not to exceed 20% of the total amount expended for each cost category.
  - For low-risk cost categories, we sampled transactions that are greater than \$335,200 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the agreements 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 agreements, and reasonable; and
- Reviewed personnel costs to ensure they are supported, authorized, reasonable, and allowable.

Internal Controls Related to the Agreements

We reviewed IDLO's internal controls related to the agreements to gain an understanding of the implemented system of internal controls to obtain reasonable assurance of IDLO's financial reporting function and compliance with applicable laws and regulations. This review was accomplished through interviews with management and key personnel, reviewing policies and procedures, and identifying key controls within significant transaction cycles and testing those key controls.

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Supporting Access to Justice in Afghanistan (SAJA) Programs

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Compliance with the Agreements Requirements and Applicable Laws and Regulations

We performed tests of transactions to determine whether IDLO complied, in all material respects, with the Letters of Agreement requirements, and any other applicable laws and regulations. We also identified and reported 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

We did not identify any prior engagements that contained prior findings and recommendations that could have a material effect on IDLO's SPFS.

Exit Conference

An exit conference was held on November 18, 2020, via conference call. Participants included representatives from Conrad, IDLO, SIGAR, and INL. During the exit conference, we discussed the preliminary results of the audit and reporting process.

**Summary of Results.**

As a result of our procedures, we issued a modified opinion on the SPFS and identified five findings that amounted to \$2,284,472 in questioned costs. 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 a modified opinion on the fairness of the presentation of the SPFS due to the \$2,284,472 in questioned costs which are material to the SPFS. In addition to the questioned costs, we have substantial doubt regarding the entire \$15,134,965 of personnel costs charged to the SAJA programs. We cannot conclude the costs are accurate or allocable as our testing identified pervasive errors and irregularities. As such, the personnel costs on the SPFS may be materially misstated.

Internal Controls and Compliance

Conrad also reported on IDLO's internal controls over financial reporting and compliance with laws, rules, and regulations, and the terms and conditions of the agreements. We identified two material weaknesses, and three significant deficiencies in IDLO's internal controls, and all five were also classified as instances of noncompliance. In performing our testing, we considered whether the information obtained 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.

In response to the identified instances of non-compliance, we identified \$2,284,472 in total questioned costs, comprised of \$7,665 in ineligible costs, \$2,276,807 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the award provisions or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate

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documentation or did not have required prior approvals or authorizations. The following summarizes the audit results.

<b>Finding Number</b>	<b>Nature of Finding</b>	<b>Matter</b>	<b>Ineligible Costs</b>	<b>Unsupported Costs</b>	<b>Cumulative Questioned Cost</b>
2020-01	Non-Compliance, Internal Control – Material Weakness	Personnel costs charged to SAJA programs were not accurate, allocable and irregularities were found		\$590,657	\$590,657
2020-02	Non-compliance, Internal Control – Material Weakness	Direct costs not adequately supported and undistinguishable from costs included in overhead rate		\$1,137,382	\$1,728,039
2020-03	Non-Compliance, Internal Control – Significant Deficiency	Missing or inadequate allocation support for costs claimed		\$464,535	\$2,192,574
2020-04	Non-Compliance, Internal Control – Significant Deficiency	Lacked sufficient evidence to support the adequacy of costs incurred		\$84,233	\$2,276,807
2020-05	Non-Compliance, Internal Control – Significant Deficiency	Ineligible costs claimed to the programs	\$7,665		\$2,284,472
<b>Total Questioned Costs</b>			<b>\$7,665</b>	<b>\$2,276,807</b>	<b>\$2,284,472</b>

**International Development Law Organization (IDLO)**  
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Supporting Access to Justice in Afghanistan (SAJA) Programs

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Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to IDLO's activities under agreements, we did not identify any prior engagements that contained findings and recommendations relevant to the audit scope that could have a material effect on the SPFS or other financial data significant to the audit objectives.

**Summary of IDLO's Responses to Findings**

IDLO disagrees with all five findings. On a typical SIGAR audit and as mentioned in the exit meeting, IDLO should be allowed two weeks to provide their management responses to the draft report. However, IDLO was given one and half months to provide their full management responses, yet no new information or documentation was provided to support their responses.



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

Director General  
International Development Law Organization  
Rome, Italy

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 International Development Law Organization ("IDLO") and the related notes to the Special Purpose Financial Statement, with respect to the U.S. Department of State's agreement numbers SINLEC17VC0242 and SINLEC17VC0289, as listed under the **Summary of Letters of Agreement** section of this report, for the period of September 16, 2014 through February 28, 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 the IDLO'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 IDLO'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 qualified audit opinion.

### **Basis for Qualified Opinion**

We identified \$2,284,472 in questioned costs resulting from deficiencies and material weaknesses in internal controls and non-compliance with the terms and conditions of the agreements. The total questioned cost amount is considered material to the Special Purpose Financial Statement. In addition to the questioned costs, we have substantial doubt regarding the entire \$15,134,965 of personnel costs charged to the SAJA programs. We cannot conclude the costs are accurate or allocable as our testing identified pervasive errors and irregularities. As such, the personnel costs on the SPFS may be materially misstated.

### **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 IDLO for the agreement numbers SINLEC17VC0242 and SINLEC17VC0289, for the period of September 16, 2014 through February 28, 2020 in accordance with the basis of accounting described below.

### **Basis of Accounting**

We draw attention to Note 2 and Note 3 to the Special Purpose Financial Statement, which describes the basis of presentation and accounting. As described in Note 2 and 3 to the Statement, the Statement is prepared by IDLO 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 17, 2021 on our consideration of IDLO'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 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 IDLO's internal control over financial reporting and compliance.

## **Restriction on Use**

This report is intended for the information of International Development Law Organization, the United States Department of State's Bureau for 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.

*Conrad LLP*

Lake Forest, California  
May 17, 2021



**International Development Law Organization (IDLO)**  
 Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
 Supporting Access to Justice in Afghanistan (SAJA) Programs

For the period September 16, 2014 through February 28, 2020

**Special Purpose Financial Statement (Consolidated)**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
<b>SINLEC17VC0242 and SINLEC17VC0289</b>	<u>\$33,615,444</u>	<u>\$33,615,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(4)
Total revenues	<u>33,615,444</u>	<u>33,615,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs:						
<b>SINLEC17VC0242 and SINLEC17VC0289</b>						
Personnel	15,098,179	15,134,965	-	489,590	489,590	(A)
Fringe benefits	1,747,837	1,589,112	-	37,782	37,782	(A)
Travel	395,214	253,371	-	-	-	
Training	8,019,743	8,083,465	-	72,448	72,448	(B)
Equipment	113,044	221,740	74	12,152	12,226	(C)
Contractual	2,530,767	2,693,620	-	303,546	303,546	(D)
Operating costs	1,130,184	941,053	6,770	101,826	108,596	(E)
Other direct costs	978,821	1,015,520	-	1,015,520	1,015,520	(F)
Indirect costs	<u>3,601,655</u>	<u>3,591,942</u>	<u>821</u>	<u>243,943</u>	<u>244,764</u>	(G)
Total costs incurred	<u>\$33,615,444</u>	<u>\$33,524,788</u>	<u>\$ 7,665</u>	<u>\$ 2,276,807</u>	<u>\$ 2,284,472</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 90,656</u>				

**Note:** SPFS related to each specific agreement is included in **Appendix A**.

**International Development Law Organization (IDLO)**  
Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
Supporting Access to Justice in Afghanistan (SAJA) Programs

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

**(1) Status of Operation**

The International Development Law Organization (“IDLO” or the “Organization”) is an international intergovernmental organization exclusively devoted to promoting the rule of law. Established in 1988, IDLO works to enable governments, empower people, and strengthen institutions to realize justice, peace, and sustainable development. Its programs, research and policy advocacy cover the spectrum of rule of law, from peace and institution building to social development and economic recovery in countries emerging from conflict and striving towards democracy. IDLO supports emerging economies and middle-income countries to strengthen their legal capacity and rule of law framework for sustainable development and economic opportunity.

There are currently thirty-seven Member Parties to IDLO: Afghanistan; Australia; Austria; Bulgaria; Burkina Faso; China; Ecuador; Egypt; El Salvador; France; Honduras; Italy; Jordan; Kenya; Kuwait; Liberia; Mali; Mongolia; Montenegro; Mozambique; Netherlands; Norway; OPEC Fund for International Development (OFID); Pakistan; Paraguay; Peru; Philippines; Qatar; Romania; Senegal; Sudan; Sweden; Tunisia; Turkey; Uganda; United States; and Vietnam. The Organization’s highest decision-making body is the Assembly of Parties, composed of representatives of all IDLO Member Parties; other governing bodies of the organization include a Standing Committee and an Audit and Finance Committee.

IDLO headquarters are located in Rome, with a Branch Office in The Hague, liaison offices for the United Nations in New York and Geneva, and Field Offices in Afghanistan, Honduras, Indonesia, Jordan, Kenya, Kyrgyzstan, Liberia, Mali, Mexico, Moldova, Mongolia, Myanmar, the Philippines, Somalia, Tunisia, Uganda, and Ukraine. IDLO enjoys Observer Status at the United Nations General Assembly.

IDLO currently manages over 60 projects in 33 countries globally. In Afghanistan, since 2002, it has been assisting the Government of the Islamic Republic of Afghanistan to develop a more inclusive, accessible, and professional justice sector and has developed programming in the areas of professional capacity development, access to justice and gender justice. In its programmatic work, IDLO has developed a strong partnership with a broad range of Government stakeholders including the Supreme Court, the Office of the Attorney General, the Ministry of Justice (among other Ministries), as well as civil society organizations promoting access to justice. Afghanistan has been an IDLO Member Party since November 2012, further strengthening the cooperative relationship among Afghan justice institutions, IDLO and the international community.

IDLO has been working to advance access to justice for Afghan citizens, particularly girls and women, and combating gender-based violence. Through the partnership with the U.S. Department of State’s Bureau of International Narcotics and Law Enforcement Affairs (“INL”), within the Supporting Access to Justice in Afghanistan (“SAJA”) program launched in 2014 and now in its second phase, IDLO has supported the development of Elimination of Violence Against Women units within the Office of the Attorney General and is working to increase their effectiveness in prosecuting violence against women cases; has united the country’s principal

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

**International Development Law Organization (IDLO)**  
Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
Supporting Access to Justice in Afghanistan (SAJA) Programs

For the period September 16, 2014 through February 28, 2020

Notes to the Special Purpose Financial Statement

legal aid providers into the Afghanistan Legal Aid and Advocates Network, strengthening their coordination to provide improved services to clients, especially the poor and disempowered; and has worked to improve the capacity of Women’s Protection Centers to implement better services to address beneficiaries’ needs.

**(2) Basis of Presentation**

The accompanying Special Purpose Financial Statement (“Statement”) includes costs incurred under Letter of Agreement numbers SINLEC17VC0242 and SINLEC17VC0289 for activities pursuant to the program Supporting Access to Justice in Afghanistan (SAJA), conducted during the period September 16, 2014, through February 28, 2020. Because the Statement presents only a selected portion of the operations of the International Development Law Organization (“IDLO”), it is not intended to and does not present the financial position, financial performance, changes in net assets, or cash flow of IDLO. The Statement was prepared at the request of SIGAR and is limited to recording transactions related to the named projects. IDLO provided to SIGAR a more detailed report on costs under the SAJA program, consistent with the format regularly used for reporting to INL, in accordance with the format and requirements established by the Agreement with the United States for the program. However, SIGAR specifically requested not to use that reporting format and to create the Statement.

**(3) Summary of Significant Accounting Policies**

**a) Basis of Accounting**

Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank accounts and deposits. Deposits refer to short-term liquid investments purchased with a maturity of three months or less.

Receivables

Receivables are stated at nominal value unless the effect of discounting is material.

Accounts Payable

Short term payables with no stated interest rate are measured at the original invoice amount because the effect of discounting is immaterial. Accounts payable represent amounts due to vendors, consultants, employees, and others. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. For SAJA I and SAJA II projects, accounts payables are classified as current liabilities.

**International Development Law Organization (IDLO)**  
Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
Supporting Access to Justice in Afghanistan (SAJA) Programs

For the period September 16, 2014 through February 28, 2020

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Operating Leases

Leases where the lessor retains a significant portion of the risks and rewards inherent in ownership are classified as operating leases. Expenditures incurred under operating leases, for SAJA I and SAJA II projects are charged to the Grant as expense, based on actual monthly rates, agreed with the lessor, and materialized in a contract.

**b) Foreign Currency conversion method**

Foreign currency transactions

As the IDLO Base currency is Euro, revenue, and expense transactions in currencies other than Euro have been recorded at appropriate rates of exchange in the IDLO Financial statements. As permitted in the IDLO Foreign exchange policy, funds received in US \$ are held in a US \$ account and are only transferred to another currency as required. Further, IDLO operations in Afghanistan are mainly conducted in US \$ which minimizes foreign exchange exposure. Realized and unrealized foreign exchange gains and losses arising from the translation of assets and liabilities in currencies other than Euro are credited or charged to the IDLO Statement of Financial Performance.

**(4) Revenues Recognition**

Revenue recognition - Non-exchange transaction

Revenue is generated through non-exchange transactions in which the Organization receives donations and grants without directly giving equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset are required to be utilized by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognized as an asset when, and only when:

- i. It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
- ii. The fair value of the asset can be measured reliably.

**International Development Law Organization (IDLO)**  
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As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

The Organization records revenue from unrestricted grants on a full accrual basis, when the right to receive the grants accrues.

Grants restricted by the donor for program purposes are deemed to be earned and are reported as revenues when expenditures are incurred in accordance with the specific restrictions of the donor. Such amounts received but not yet earned are reported as deferred revenue.

Grants not restricted to specific programs but earmarked for a general purpose are deemed to be earned and are reported as revenues when expenditures are incurred.

**(5) Cost Categories**

The Organization records expenses on an accrual basis. Total expenses under both grants based on categories are presented in the following tables:

	Budget	Actual	Variance
<b>Revenues</b>			
Award 1 - Supporting Access to Justice in Afghanistan (SAJA I)	\$17,115,444	\$17,115,444	\$0
<b>Total Revenue</b>	<b>\$17,115,444</b>	<b>\$17,115,444</b>	<b>\$0</b>
<b>Costs Incurred</b>			
Personnel	\$8,204,653	\$8,378,210	(\$173,557)
Fringe Benefits	\$948,477	\$828,118	\$120,359
Travel	\$274,639	\$157,723	\$116,916
Training	\$3,231,978	\$3,174,414	\$57,564
Equipment	\$79,585	\$181,657	(\$102,072)
Contractual	\$982,704	\$1,055,493	(\$72,789)
Operating Cost	\$721,456	\$602,354	\$119,102
Indirect Costs	\$1,833,798	\$1,830,102	\$3,696
Other Direct Costs	\$838,153	\$872,879	(\$34,726)
<b>Total Costs Incurred</b>	<b>\$17,115,444</b>	<b>\$17,080,951</b>	<b>\$34,493</b>
<b>Outstanding Fund Balance</b>	<b>\$0</b>	<b>\$34,493</b>	<b>(\$34,493)</b>

**International Development Law Organization (IDLO)**  
 Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
 Supporting Access to Justice in Afghanistan (SAJA) Programs

For the period September 16, 2014 through February 28, 2020

Notes to the Special Purpose Financial Statement

	Budget	Actual	Variance
<b>Revenues</b>			
Award 2 - Supporting Access to Justice in Afghanistan (SAJA II)	\$20,320,225	\$20,320,225	\$0
<b>Total Revenue</b>	<b>\$20,320,225</b>	<b>\$20,320,225</b>	<b>\$0</b>
<b>Costs Incurred</b>			
Personnel	\$8,253,420	\$6,756,754	\$1,496,667
Fringe Benefits	\$952,168	\$760,994	\$191,175
Travel	\$115,686	\$95,648	\$20,038
Training	\$6,203,813	\$4,909,051	\$1,294,761
Equipment	\$55,858	\$40,083	\$15,775
Contractual	\$1,977,828	\$1,638,127	\$339,700
Operating Cost	\$414,597	\$338,699	\$75,898
Indirect Costs	\$2,177,167	\$1,761,840	\$415,327
Other Direct Costs	\$169,687	\$142,641	\$27,046
<b>Total Costs Incurred</b>	<b>\$20,320,225</b>	<b>\$16,443,838</b>	<b>\$3,876,387</b>
<b>Outstanding Fund Balance</b>	<b>\$0</b>	<b>\$3,876,387</b>	<b>(\$3,876,387)</b>

**(6) Reconciliation**

IDLO prepares periodic reconciliations, specifically for the Grants and also for the institutional financial statement.

- Monthly Grants reconciliations are prepared (through budget versus actual report) for, total expenditure, total revenue, and fund balance.
- Where donors make payments to IDLO in advance, the funds are tracked individually, through a deferred income account.
- Monthly Balance sheet reconciliations are prepared, with schedules presenting the detailed transactions and explanations of the trial balance.
- Quarterly reconciliations are prepared for donor reports, to ensure that information reported to donors is supported by detailed reports extracted from the financial system (Navision).

**(7) Fund Balance**

Fund balance represents the difference between revenues earned and costs incurred plus the 12% mandatory Overhead cost.

**International Development Law Organization (IDLO)**  
Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
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For the period September 16, 2014 through February 28, 2020

Notes to the Special Purpose Financial Statement

As at, October 31, 2017, there was a balance of USD \$34,493 outstanding under the grant agreement Supporting Access to Justice in Afghanistan (SAJA) within the grant period of performance which was from September 16, 2014 to October 31, 2017. The total budget for the project was USD \$17,115,444.

As at, February 28, 2020, there was a balance of USD \$56,162 outstanding under the grant agreement Supporting Access to Justice in Afghanistan (SAJA II) within the grant period of performance which was from October 01, 2017 to February 28, 2020. SAJA II was then extended until December 14, 2020 with additional funds granted which led to a total budget amount of USD \$20,320,225.

**International Development Law Organization (IDLO)**  
Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
Supporting Access to Justice in Afghanistan (SAJA) Programs

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

For the Period of September 16, 2014 through February 28, 2020

**(A) Personnel and Fringe Benefits**

IDLO reported a total of \$15,134,965 for personnel costs and a total of \$1,589,112 in related fringe benefits for the period of September 16, 2014 through February 28, 2020. Personnel costs charged to the SAJA programs were not accurate or allocable, and contained irregularities. This resulted in total unsupported costs of \$489,590 and associated fringe of \$37,782. See Finding No. 2020-01 in the Schedule of Findings and Questioned Costs section of this report.

**(B) Training**

IDLO reported a total of \$8,083,465 for training costs for the period of September 16, 2014 through February 28, 2020. During our audit of these costs, we noted that IDLO did not provide sufficient documentation to support training costs incurred for SAJA I. This resulted in total unsupported costs of \$72,448. See Finding No. 2020-04 in the Schedule of Findings and Questioned Costs section of this report.

**(C) Equipment**

IDLO reported a total of \$221,740 for equipment costs for the period of September 16, 2014 through February 28, 2020. During our audit of these costs, we noted:

- (1) One equipment cost for an unrelated program was incorrectly charged to the SAJA II program which resulted in ineligible costs of \$74. See Finding No. 2020-05 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Equipment costs lacked documentation supporting the allocation of equipment costs charged to the programs. This resulted in total unsupported costs of \$12,152. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.

**(D) Contractual**

IDLO reported a total of \$2,693,620 for contractual costs for the period of September 16, 2014 through February 28, 2020. During our audit of these costs, we noted that Contractual costs lacked documentation supporting the costs allocated. This resulted in total unsupported costs of \$303,546. See Finding No. 2020-03 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.



**International Development Law Organization (IDLO)**  
Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
Supporting Access to Justice in Afghanistan (SAJA) Programs

Notes to Questioned Costs Presented on Special Purpose Financial Statement

For the Period of September 16, 2014 through February 28, 2020

**(E) Operating costs**

IDLO reported a total of \$941,053 for operating costs for the period of September 16, 2014 through February 28, 2020. During our audit of these costs, we noted:

- (1) Operating costs lacked documentation supporting the costs allocated to the SAJA programs. This resulted in total unsupported costs of \$99,066. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.
- (2) IDLO did not provide sufficient documentation to support operating costs incurred for SAJA II. This resulted in total unsupported costs of \$2,760. See Finding No. 2020-04 in the Schedule of Findings and Questioned Costs section of this report.
- (3) Operating costs for a Legacy INL program was incorrectly charged to the SAJA I program, which resulted in ineligible costs of \$6,770. See Finding No. 2020-05 in the Schedule of Findings and Questioned Costs section of this report.

**(F) Other direct costs**

IDLO reported a total of \$1,015,520 for other direct costs for the period of September 16, 2014 through February 28, 2020. During our audit of these costs, we noted that program direct costs charged by headquarter personnel were not adequately supported and were not distinct from costs included in the overhead rate. This resulted in total unsupported costs of \$1,015,520. See Finding No. 2020-02 in the Schedule of Findings and Questioned Costs section of this report.

**(G) Indirect costs**

IDLO reported a total of \$3,591,942 for indirect costs for the period of September 16, 2014 through February 28, 2020. The indirect costs associated with the questioned costs identified in Notes A through F above resulted in total ineligible indirect costs of \$821 and total unsupported indirect costs of \$243,943 being questioned. This resulted in total questioned indirect costs of \$244,764.



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Director General  
International Development Law Organization  
Rome, Italy

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 International Development Law Organization ("IDLO") representing revenues received and costs incurred for agreement numbers SINLEC17VC0242 and SINLEC17VC0289 listed in the **Summary of Agreements**, awarded by the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs ("INL") supporting Access to Justice in Afghanistan ("SAJA") Programs for the period September 16, 2014 through February 28, 2020, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 17, 2021 with an qualified opinion.

### Internal Control over Financial Reporting

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

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. During our audit we identified a total of five deficiencies in internal control as described in the accompanying Schedule of Findings and Questioned Costs. Findings 2020-01 and 2020-02 are considered to be material weaknesses, and Findings 2020-03, 2020-04, and 2020-05 are considered to be significant deficiencies.

### **IDLO's Response to Findings**

IDLO's response to the findings identified in our audit is included verbatim in Appendix B. IDLO'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 IDLO'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 International Development Law Organization, the United States Department of State's Bureau for 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 17, 2021



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Director General  
International Development Law Organization  
Rome, Italy

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 International Development Law Organization ("IDLO") representing revenues received and costs incurred for agreement numbers SINLEC17VC0242 and SINLEC17VC0289 listed in the **Summary of Agreements** of this report, awarded by the State Department Bureau for International Narcotics and Law Enforcement Affairs ("INL") Supporting Access to Justice in Afghanistan ("SAJA") Programs for the period September 16, 2014 through February 28, 2020, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated May 17, 2021 with an qualified opinion.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether IDLO'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 Letter of Agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed five 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 2020-01, 2020-02, 2020-03, 2020-04 and 2020-05.

### IDLO's Response to Findings

IDLO's response to the findings identified in our audit is included verbatim in Appendix B. IDLO'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 International Development Law Organization, the United States Department of State's Bureau for 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, flowing style.

Lake Forest, California  
May 17, 2021

**International Development Law Organization (IDLO)**  
Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
Supporting Access to Justice in Afghanistan (SAJA) Programs

For the period September 16, 2014 through February 28, 2020

Schedule of Findings and Questioned Costs

**Finding 2020-01: Personnel Costs Charged to SAJA Programs were not accurate, allocable and irregularities were found.**

**Nature of Finding:** Noncompliance and Internal Control—Material Weakness

**Criteria:** *INL's agreements* with IDLO state, "IDLO shall keep regular and accurate financial and other records and accounts of the implementation of SAJA."

It also requires that:

"All expenditures paid with funds provided in this LoA [Letter of Agreement] must be incurred for authorized activities that take place during this Period of Performance unless otherwise stipulated. The terms and conditions of this LoA, including agreed upon Program activities, may only be amended by mutual written agreement. If, at any time during this Period of Performance, or as a result of final audit, it is determined that INL funds provided in this LoA have been expended for purposes not in accordance with the agreed upon activities, IDLO must return the amount expended to the U.S. government."

Finally, the agreements state:

"INL shall have the right to inspect any such records or accounts not of a confidential nature and that are specifically related to SAJA in order to verify that SAJA is being, or has been, implemented in accordance with the terms of the Agreement."

Additionally, IDLO's internal policies specifically note that timesheets must be sufficiently accurate to ensure that costs are correctly charged to programs:

**Section 3.2.a. of IDLO's "Approved Cost Policy Statement," (October 5, 2018),** states:

Program direct costs can include expenditure related to program specific employees (salary, benefits, posting and orientation/onboarding training), travel and Daily Subsistence Allowance (DSA), subgrants to implementing partners, training, seminars, publications, equipment, program premises and any other inputs necessary to achieve the program's objectives. As these costs are generally shared across various programs, allocations are charged against each given program using timesheets to arrive at the amounts charged to programs.

**Furthermore, IDLO's Field Operations Manual (February 2, 2019)** states:

1. Time Management  
IDLO is currently developing new time management processes and will be rolling out the new Time Keeping System in 2019. In the meantime, field employees should continue their current timekeeping practices...Some personnel are requested to keep track of their time for donor compliance purposes.

**Condition:** We reviewed 103 personnel transactions totaling \$506,838 out of 8,509 personnel transactions to determine if personnel costs allocated to the SAJA programs were accurate and allowable. The transactions reviewed included 96 of 502 personnel/consultants and pay periods for eight different months. In total there was \$15,134,965 in labor charged to SAJA during our period of review.

The documents we reviewed did not provide assurance that personnel costs were accurate or allocable to the SAJA programs. In total we found 81 instances where the personnel and/or timekeeping documentation were missing or incomplete which resulted in \$402,320 of unsupported/improper costs. We also found 94 instances where the personnel allocation was not supported by complete or consistent allocation documentation which resulted in \$467,255 of unsupported/improper costs. Additionally, in 18 instances we found various irregularities in the allocation methods, reasoning, and support for the personnel charges to the SAJA programs which resulted in \$97,433 of unsupported/improper costs. The following summarizes the results of our review.

Issue #	Nature of Issue	Number of Instances	Questioned Costs	Cost already questioned in other Issues	
				Amount	Issue #
<b>1. Personnel and/or Timekeeping Documentation - Missing and/or Incomplete</b>					
1a	IDLO charged time to the SAJA programs without timesheet support.	29	\$218,622	\$0	
1b	IDLO charged time to the SAJA projects using manual attendance sheets that did not indicate hours spent on SAJA programs. Additionally, the attendance sheets were missing key evidence- signatures and dates - demonstrating the attendance sheets were certified subsequent to the date the hours were incurred.	37	\$132,858	\$0	
1c	IDLO's Time Keeping System (TKS) reports did not require personnel or supervisors to certify or date payroll records, which would demonstrate if the hours worked were accurate and certified after the fact.	10	\$29,522	\$0	
1d	International consultant timesheets were either not dated by the consultant, supervisor, or both, to demonstrate if the hours worked were certified after the fact.	3	\$17,213	\$0	
1e	No employment/consultant contracts provided to support time charged to SAJA programs.	2	\$4,105	\$4,105	1a
	<i>Subtotal</i>	81	\$402,320	\$4,105	

<b>2. Allocation Support – Inadequate or Missing</b>					
2a	IDLO did not provide adequate allocation support for the time charged and/or percentage charged to the program.	80	\$443,190	\$368,693	1a, 1b,1d
2b	IDLO did not use the time recorded in the Time Keeping System to allocate personnel charges to the SAJA programs.	3	\$7,187	\$7,187	1c
2c	IDLO allocated Bonus payments and Provident Fund contributions to the SAJA programs without adequate supporting documentation.	11	\$16,878	\$0	
	<i>Subtotal</i>	94	\$467,255	\$375,880	
<b>3. Irregularities</b>					
3a	IDLO charged a percentage of employee/consultants to the SAJA programs in the absence of clear employment/consultant contract language specifying what program the employee/consultant was to work on. Alternatively, costs were charged to SAJA programs when the contract clearly specified the employee/consultants were to work on non-SAJA programs.	10	\$44,233	\$44,233	1a,1b
3b	Total hours charged to the SAJA programs per the timesheet appear to be prepared based on the approved budget percentage rather than the consultant's actual time worked. For example, the timesheet showed a consistent 5.6 hours and/or 5.3 hours charged to the SAJA programs and 2.4 hours and/or 2.2 hours charged to another program.	2	\$10,176	\$10,176	1d
3c	The timesheet properly allocated hours to SAJA programs, however, email correspondence between the program accountant and program coordinator directed this person time be allocated using a random percentage rather than the hours indicated on the timesheet.	2	\$8,972	\$8,972	1c,1d
3d	IDLO allocated 100% of an employee's salary to the SAJA program, even though the employee's time recorded on the TKS report indicated the employee worked less than 8 hours a day on the SAJA programs	2	\$5,252	\$5,252	1c



	with the remaining hours recorded as “extra time” without description where the extra time should be allocated.				
3e	IDLO charged 100% of a consultant’s time to the SAJA programs, even though the consultant’s invoice noted an event at the Dutch Embassy that appears to be entirely unrelated to INL or the SAJA programs.	1	\$11,950	\$11,950	2a
3f	IDLO allocated an international employee’s time to the SAJA programs without supporting timesheets. IDLO requested timesheets, but the employee did not cooperate.	1	\$16,850	\$16,850	1a
	<i>Subtotal</i>	18	\$97,433	\$97,433	
<b>Total</b>			<b>\$967,008</b>	<b>\$477,418</b>	
<b>Net Total Questioned Costs</b>			<b>\$489,590</b>		

**Cause:** Personnel Costs Charged to SAJA Programs were not accurate, allocable and irregularities were found because IDLO has not implemented accurate timekeeping policies and procedures. The organization recognized that it was not meeting donor requirements to document labor charges to programs accurately and implemented a pilot program called the Time Keeping System (TKS) in an effort to link hours charged to programs more accurately as required by their cost policy. In a memo dated March 25, 2019, IDLO stated:

“We have a pressing demand from Donors to provide supporting evidence for the allocation of employees' time across programs and institutional activities. By allocating employee time to Programs and other activities, we will be better placed to charge more accurately for our programs and to ensure that we have a transparent cost allocation process.”

“The TKS will help us collect data for internal IDLO analysis and for a better understanding of time allocation across Programs and Institutional activities. The Timesheets that will be created in the system will not be submitted to Donors.”

During this time, IDLO only required some personnel to keep track of their time for donor compliance purposes.

Although it began to implement the TKS system in 2019 at the time of our review it had not been fully implemented. IDLO stated the system is still in a pilot phase and is currently used for “internal analysis and [to gain] a better understanding of time allocation across Programs and Institutional activities”. IDLO’s incomplete efforts to implement the system do not relieve it of meeting the requirement to regularly and accurately support labor charged to SAJA.

**Effect:** In the instances presented above, labor costs of \$489,590 charged to SAJA could not be directly linked to the program. In addition, the number of issues identified in this finding raise substantial doubt regarding the accuracy of the \$15,134,965 in labor charged to SAJA. IDLO’s lack of adequate

timekeeping policies and procedures create a circumstance where inaccurate personnel/consultant time may be charged to SAJA and that U.S. taxpayer-provided funds are not used for the intended purposes.

**Questioned Costs:** Unsupported questioned costs specifically identified in this audit totaled \$590,657, of which \$489,590 represents unsupported personnel cost, \$37,782 represents associated fringe, and \$63,285 indirect costs. Of significance, given the pervasive number of issues and irregularities identified in our testing, the entire personnel costs of \$15,134,965, presented in the SPFS, could be materially misstated.

**Recommendation:**

- (1) We recommend that IDLO either provide further evidence that the personnel/consultant hours were accurately charged to the SAJA programs or return \$590,657 in unsupported costs.
- (2) We recommend that IDLO implement an accurate timekeeping system that will require and ensure all personnel, directly supporting donor-supported programs, document hours charged to each program in order to clearly and accurately support labor costs charged to U.S.-funded programs.

**Finding 2020-02: Direct program costs charged by headquarter personnel were not adequately supported and cannot clearly be distinguished from the costs that were included in the overhead rate charged to the SAJA programs.**

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

**Criteria:** *INL’s Letters of Agreement with IDLO*, state the following:

“IDLO shall keep regular and accurate financial and other records and accounts of the implementation of SAJA. Subject to the following, and without prejudice to any privileges or immunities that IDLO may enjoy as an international organization, INL shall have the right to inspect any such records or accounts not of a confidential nature and that are specifically related to SAJA in order to verify that SAJA is being, or has been, implemented in accordance with the terms of the Agreement...

**...Overhead Costs (If implementer Does Not Itemize Program Support)**

The funds are inclusive of the requirement Program support cost of 12 per cent...”

*The Assembly of Parties of IDLO adopted and approved a resolution in 2008 to approve the 12% overhead for all IDLO donor sponsored programs. The resolution, “IDLO/Assembly R.3/2008, Assembly of Parties Resolution no. 3 on Sub-proposal no. 2 regarding overhead program costs”, states the following:*

**“3. Program support costs**

Based on the earlier mentioned methodology (estimation of internal tariffs and time), IDLO’ s average program support costs for the 2009-2012 period can be broken down into the following subcomponents:..”

<b>Subcomponent</b>	<b>€/year</b>
Fundraising and Program Development:	800.000
Monitoring and Evaluation:	500.000
Administrative support and Logistics:	450.000
Financial monitoring	500.000
<b>TOTAL</b>	<b>2.250.000</b>
Average direct program costs	18.750.00
<b>Overhead (to cover program support costs)</b>	<b>12%</b>

**“...Note on IDLO Program Financing Structure**

- **Direct Program Costs:** are all non-IDLO Secretariat staff costs incurred when implementing a specific program, e.g., program linked staff hires, travel, housing, etc. fully reimbursable costs, that IDLO will only incur such costs when covered -fully by financial contributions to implement a specific program.”

**IDLO’s Approved Cost Policy Statement, Oct 5, 2018,** states in part:

“3.2 Cost

a) Direct costs:

...Project direct costs can include expenditure related to project specific employees (salary, benefits, posting and orientation/onboarding training), travel and Daily Subsistence Allowance (DSA), subgrants to implementing partners, training, seminars, publications, equipment, project premises and any other inputs necessary to achieve the project’s objectives...”

**IDLO’s Financial Management Framework, May 1, 2016, 1.6 Definitions and Abbreviations,** defines internal controls as:

“Systematic measures instituted by IDLO to safeguard its assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of accounting data, and ensure adherence to policies.”

**IDLO’s Financial Management Framework, May 1, 2016, 4.1. Delegations of Financial Authority** states the following:

“IDLO must establish and maintain delegations of financial authority covering financial management and the creation of financial obligations (including contingent liabilities and obligations) on behalf of the IDLO.

...h) Audit trails must be maintained to demonstrate compliance with this instruction.”

**Condition:** IDLO inaccurately charged overhead type costs (costs associated with Administrative and Headquarter Staff’s monitoring and supervision duties) as direct costs and at the same time IDLO charged the programs a 12% overhead rate for performing monitoring and supervision functions. The costs in question were charged as Other Direct Costs but were comprised of Headquarter and Administrative regular administrative duties - monitoring and supervision functions. Personnel falling in this category include the Director General, General Counsel, Director of Human Resources, the Chief Financial Officer, and other administrative related positions. IDLO developed an internal daily rate for each of these positions ranging from \$735 to \$2,000 a day for each day and then charged 1 to 3 days of time each month for each of the positions as direct costs for the duration of the program. These allocations were charged as direct costs to the SAJA programs in addition to charging 12% of the salaries in these same positions as indirect costs. The costs are unallowable as direct costs to the programs as:

- 1) Headquarter and Administrative Staff monitoring and supervision duties do not meet IDLO’s Assembly of Parties definition of direct costs as these categories of staff are not program-linked hires.
- 2) Costs associated with Headquarter and Administrative Staff functions of monitoring and evaluation, support and logistics, and financial monitoring are explicitly covered in the Assembly of Parties developed 12% overhead rate, which IDLO has charged to the SAJA programs.

- 3) IDLO did not provide evidence that accurately delineated costs charged to Other Direct Costs as distinct from those costs charged as overhead. For instance, the duties proposed in the direct cost line item were the same as the duties included in the overhead rate definition.
- 4) Even if these types of costs were allowable as direct costs, IDLO did not provide reliable documentation supporting and justifying the time or daily rate charged. For instance, IDLO provided "management cost summaries" in support of the costs charged. However, the summaries did not include details linking employee's time/duties to the SAJA programs in a way that would justify direct charging. Additionally, we noted irregularities in the certification of the time charged, as the Director of Human Resources certified the time charged months and in some cases years after the work had been performed.

**Cause:** Direct and overhead costs cannot be easily differentiated due to lack of policies and procedures in place on maintaining audit trail and documentation. The Government may have been charged twice for costs because IDLO's internal controls failed to provide a check to assure that costs were segregated and not duplicated in invoices to the Government.

**Effect:** The lack of policies and procedures, as well as insufficient evidence and audit trail to justify that the Other Direct Costs claimed are distinct from the overhead costs resulted in costs being overcharged to the program by \$1,137,382.

**Questioned Costs:** Unsupported questioned costs identified totaled \$1,137,382 of which \$121,862 represents associated indirect costs.

**Recommendation:**

- (1) We recommend that IDLO provide adequate source documentation to properly substantiate that the costs claimed were accurate and distinct from the overhead costs or return \$1,137,382 in questioned costs.
- (2) We recommend that IDLO revise the current cost policies and procedures to require maintaining sufficient evidence and audit trail in order to clearly distinguish program direct costs from overhead costs, and to ensure these costs are not included in both cost categories.
- (3) We recommend that IDLO develop procedures to ensure that costs are charged in the correct cost category and redevelop their overhead cost rate to exclude program direct cost.

**Finding 2020-03: Missing or inadequate direct cost allocation support for costs claimed**

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

**Criteria:** *INL’s Agreements with IDLO (applicable to all transactions)*, state in part:

“IDLO shall keep regular and accurate financial and other records and accounts of the implementation of SAJA. Subject to the following, and without prejudice to any privileges or immunities that IDLO may enjoy as an international organization, INL shall have the right to inspect any such records or accounts not of a confidential nature and that are specifically related to SAJA in order to verify that SAJA is being, or has been, implemented in accordance with the terms of the Agreement.”

**Condition** Conrad judgmentally sampled 88 out of 4,911 transactions made by IDLO for equipment, contractual, and operating costs from the respective cost categories in the SPFS to determine if the costs charged to the agreements were accurate and allowable.

For equipment, Conrad selected 6 transactions totaling \$68,947 out of a population of 255 totaling \$221,740. For contractual, Conrad selected 41 transactions totaling \$813,516 out of a population of 528 totaling \$2,693,620. For operating costs, Conrad selected 44 transactions totaling \$188,920 out of a population of 4,128 totaling \$941,053.

In the samples tested, we did not question any costs where IDLO was able to provide documentation supporting a reasonable basis of allocation. However, our testing, identified 44 transactions where IDLO did not provide accurate allocation support for the percentage of shared costs charged to the SAJA programs. The following are the details of the transactions in question:

<b>Cost Category</b>	<b>Missing Allocation Support</b>	<b>Questioned amount</b>
Equipment	2	\$ 12,152
Contractual	16	303,546
Operating Costs	26	99,066
<b>Sub-Total</b>	<b>44</b>	<b>\$ 414,764</b>
<b>Associated Indirect Costs</b>		<b>49,771</b>
<b>Total Questioned Costs</b>		<b>\$ 464,535</b>

**Cause:** Direct Cost allocations were often unsupported because IDLO lacked clear and comprehensive policies and procedures for the allocation of direct costs and did not consistently apply the same allocation methodologies it uses for the shared direct costs. As a result, IDLO did not have documentation supporting allocation rationale and percentages used.

**Effect:** IDLO improperly burdened the SAJA programs with funds not apportioned to SAJA. By not documenting or supporting the cost allocations made to each agreement, IDLO increased the risk that USG funds allocated to each award was not used for its intended purpose.

**Questioned Costs:** Unsupported costs identified totaled \$464,535, of which \$414,764 of unsupported costs and \$49,771 represents associated indirect costs.

**Recommendation:**

- (1) We recommend that IDLO provide evidence and sufficient allocation support to properly justify the percentage allocated to the SAJA programs or return \$464,535 of unsupported costs.
- (2) We recommend that IDLO develop comprehensive procedures for allocating direct costs shared between projects, including requirements for documenting rationale and percentages used, and train staff on these procedures.
- (3) We recommend that IDLO design and implement procedures for supervisory review over financial statements to ensure the overapplication of its cost allocation procedures.

**Finding 2020-04: Lack of sufficient evidence to support costs incurred under training and operating costs to the SAJA programs**

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

**Criteria:** *IDLO Procurement Policies and Procedures, issued date March 01, 2016 and revised date July 05, 2019, section 11.7. Maintenance of Files*, states in part:

“The procurement policy of IDLO is to document in a complete manner all procurement actions...

...**11.7.1 Documentation for Purchase Orders and Contracts.** A file documenting details of the procurement action shall include:

- b) justification for waiving competition and approvals...
- g) copy of each Quotation, Bid or Proposal received...
- h) summary of all Quotations, Bids or Proposals received...”

**IDLO’s Document Retention Policy, December 2019, III. General Principles** states:

“...Records show compliance with the rules and regulations governing the Organization, as well as its (past and present) practice and decisions, and are essential for program evaluation, daily operations, decision-making, reviews and audits, and strategic planning. Records and Archives facilitate the reference and research requirements of the Organization and ensure the needs of the Organization and its stakeholders are adequately met and documented. As such, the maintenance of Records is an essential support task for all Departments in IDLO...”

**IDLO’s Payment Processing Guidelines (appears to have been written in 2015)** states, in part:

*“...Supporting Documentation*

Each transaction must be adequately supported with various documents in (e.g., receipts, invoices, contracts, and other relevant vouchers) in addition to the various standard forms for the expense to be accepted and converted into a financial transaction...

*Documentation Requirements by Expense*

...Hotel Receipts – Accommodation...

...Air Travel

- Original airline receipt, including credit/debit card receipt where applicable.
- Ticket showing itinerary.

...Taxi/Local Transport

- Original receipt, including credit/debit card receipt, where applicable. Receipt should provide details of journey...”

**Condition:** Conrad judgmentally selected 115 transactions totaling \$1,656,738 out of a population of 10,246 for Training totaling \$8,083,465 and 44 transactions totaling \$188,920 out of a population of 4,128



for Operating Costs totaling \$941,053, from the respective cost categories of the SPFS to determine if the costs incurred to the agreements were supported, accurate, and allowable.

IDLO could not provide sufficient supporting documentation to substantiate the allowability of \$76,730 in charges to the agreements. A summary of these noted exceptions are as follows:

- 1) In 13 out of the 115 Training transactions tested, IDLO provided a log showing the attendees' names and ground transportation costs reimbursed to each attendee for training events, which included taxi or private car transportation costs between provinces. However, IDLO did not provide further support such as invoices, total mileage traveled for the trip, or other supporting documentation to substantiate these travel costs. The following are the details of the issues identified:
  - a) 1 sample transaction missing 16 taxi receipts, 32 local transportation cost support documents, 11 mileage support documents and 18 airfare receipts.
  - b) 1 sample transaction missing 55 ground transportation receipts, 59 lodging receipts, 17 receipts for airport transfer fees, 58 local transportation receipts and 6 meal receipts.
  - c) 1 sample transaction missing 65 local transportation and taxi receipts, and 2 airfare receipts.
  - d) 10 sample transactions missing ground transportation and local transportation receipts for multiple attendees.

The above noted exceptions resulted in \$72,448 questioned costs for Training.

- 2) In 4 out of the 44 Operating Costs transactions tested, IDLO could not provide a bid or proposal package or justification for waiving competition from the vendor which resulted in questioned costs of \$4,282 for Operating costs.

**Cause:** IDLO did not properly retain its records in accordance with retention requirements specified in its own record retention policy and payment processing guidelines due to inadequate management oversight.

**Effect:** The lack of sufficient evidence for costs claimed raises doubts that (1) the good or services charged to the USG were actually purchased, and (2) the charges were accurate or correctly charged to the agreements.

**Questioned Costs:** Unsupported questioned costs identified totaled \$85,938, of which \$9,208 represents associated indirect costs. There were \$1,522 of unsupported costs and associated indirect costs of \$183 under the Operating cost category already questioned in Finding 2020-03. Therefore, the net questioned costs are \$84,233.

**Recommendation:**

- (1) We recommend that IDLO provide the appropriate source documentation to properly substantiate that the costs claimed were allowable or return \$84,233 of unsupported costs.
- (2) We recommend that IDLO train staff on its record retention requirements to ensure all expenses are properly supported and retained.

## **Finding 2020-05: Ineligible Costs Claimed to the Program**

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

**Criteria:** *INL's Letter of Agreement with IDLO*, states in part:

"IDLO shall keep regular and accurate financial and other records and accounts of the implementation of SAJA. Subject to the following, and without prejudice to any privileges or immunities that IDLO may enjoy as an international organization, INL shall have the right to inspect any such records or accounts not of a confidential nature and that are specifically related to SAJA in order to verify that SAJA is being, or has been, implemented in accordance with the terms of the Agreement."

*IDLO's Financial Management Framework Policy, May 1, 2016, 1.6 Definitions and Abbreviations* defines internal controls as:

"Systematic measures instituted by IDLO to safeguard its assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of accounting data, and ensure adherence to policies."

*IDLO's Financial Management Framework, May 1, 2016, 4.1 Delegation of Financial Authority* states the following:

"IDLO must establish and maintain delegations of financial authority covering financial management and the creation of financial obligations (including contingent liabilities and obligations) on behalf of the IDLO.

...h) Audit trails must be maintained to demonstrate compliance with this instruction."

*According to IDLO's Approved Cost Policy Statement, Oct 5, 2018*, states in part:

"3.2 Cost

a) Direct costs:

...Program direct costs can include expenditure related to program specific employees (salary, benefits, posting and orientation/onboarding training), travel and Daily Subsistence Allowance (DSA), subgrants to implementing partners, training, seminars, publications, equipment, program premises and any other inputs necessary to achieve the program's objectives..."

**Condition:** Conrad judgmentally selected 6 transactions totaling \$68,947 out of a population of 255 for Equipment totaling \$221,740 and 44 transactions totaling \$188,920 out of a population of 4,128 for Operating Costs totaling \$941,053 from the respective cost categories of the SPFS to determine if the costs incurred to the agreements were supported, accurate, and allowable. We noted the following instances where costs were incorrectly charged to the SAJA programs or lacked sufficient support to indicate that the costs were associated with the SAJA programs.

- 1) In 1 out of 6 Equipment transactions tested, IDLO incorrectly charged the full cost of the equipment to the SAJA programs when supporting documentation indicated that the equipment was used between SAJA II and another program with a 70%/30% split which resulted in \$74 of questioned Equipment costs.
- 2) In 1 out of 44 Operating transactions tested, the supporting document indicates the cost was related to Legacy INL and not the SAJA programs which resulted in \$6,770 of questioned Operating costs.

The above noted exceptions resulted in \$6,844 questioned costs for the SAJA programs.

**Cause:** IDLO's Direct Cost Policy lacks specific internal control procedures to ensure incurred costs are program specific and to mitigate the charging of non-allocable costs.

**Effect:** IDLO's weak internal control procedures resulted in costs being charged that were not allocable to the SAJA programs.

**Questioned Costs:** Ineligible questioned costs identified totaled \$7,665, of which \$821 represents associated indirect costs.

**Recommendation:**

- (1) We recommend that IDLO either provide further evidence that the ineligible costs were related to the SAJA programs or return \$7,665 in questioned costs.
- (2) We recommend that IDLO develop specific internal control and review policies and procedures to ensure financial transactions are charged to the correct program(s) and train staff on these procedures.

## International Development Law Organization (IDLO)

Financial Audit of Costs Incurred Under  
Letter of Agreement No. SINLEC17VC0242

### Special Purpose Financial Statement

For the Period of September 16, 2014 through October 31, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:				Questioned Costs		
<b>SINLEC17VC0242</b>	\$ 17,115,444	\$ 17,115,444	\$ -	\$ -	\$ -	(4)
Total revenues	<u>17,115,444</u>	<u>17,115,444</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	8,204,654	8,378,211	-	251,651	251,651	(A)
Fringe benefits	948,477	828,118	-	19,988	19,988	(A)
Travel	274,639	157,723	-	-	-	
Training	3,231,978	3,174,414	-	72,448	72,448	(B)
Equipment	79,585	181,657	-	11,060	11,060	(C)
Contractual	982,704	1,055,493	-	266,147	266,147	(D)
Operating costs	721,456	602,354	6,770	53,305	60,075	(E)
Other direct costs	838,153	872,879	-	872,879	872,879	(F)
Indirect costs	<u>1,833,798</u>	<u>1,830,102</u>	<u>812</u>	<u>185,697</u>	<u>186,509</u>	(G)
Total costs incurred	<u>\$ 17,115,444</u>	<u>\$ 17,080,951</u>	<u>\$ 7,582</u>	<u>\$ 1,733,175</u>	<u>\$ 1,740,757</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 34,493</u>				

## International Development Law Organization (IDLO)

Financial Audit of Costs Incurred Under  
Letter of Agreement No. SINLEC17VC0289

### Special Purpose Financial Statement

For the Period of October 1, 2017 through February 28, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:				Questioned Costs		
<b>SINLEC17VC0289</b>	\$ 16,500,000	\$ 16,500,000	\$ -	\$ -	\$ -	(4)
Total revenues	<u>16,500,000</u>	<u>16,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	6,893,525	6,756,754	-	237,939	237,939	(A)
Fringe benefits	799,360	760,994	-	17,794	17,794	(A)
Travel	120,575	95,648	-	-	-	
Training	4,787,765	4,909,051	-	-	-	(B)
Equipment	33,459	40,083	74	1,092	1,166	(C)
Contractual	1,548,063	1,638,127	-	37,399	37,399	(D)
Operating costs	408,728	338,699	-	48,521	48,521	(E)
Other direct costs	140,668	142,641	-	142,641	142,641	(F)
Indirect costs	<u>1,767,857</u>	<u>1,761,840</u>	<u>9</u>	<u>58,246</u>	<u>58,255</u>	(G)
Total costs incurred	\$ <u>16,500,000</u>	\$ <u>16,443,837</u>	\$ <u>83</u>	\$ <u>543,632</u>	\$ <u>543,715</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ 56,163</u>				

**International Development Law Organization (IDLO)**  
Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
Supporting Access to Justice in Afghanistan (SAJA) Programs

For the period September 16, 2014 through February 28, 2020

IDLO's Responses to Audit Findings

Included on the following pages are International Development Law Organization's responses received to the findings identified in this report.

April 28, 2021

## **Introduction and General Response**

The International Development Law Organization (“IDLO”) is an international, intergovernmental organization with privileges and immunities recognized under U.S. law. As a “foreign public entity,” it is not subject to the OMB general cost principles found in the U.S. Code of Federal Regulations. Rather, as set forth in the international agreements between IDLO and the United States that created and regulated the Supporting Access to Justice in Afghanistan (“SAJA”) program – specifically, Letters of Agreement with INL, or LOAs – the funds administered by IDLO under the SAJA program are “exclusively subject to internal and external auditing procedures laid down in the financial regulations, rules and policies of IDLO” and are to be “administered by IDLO in accordance with applicable IDLO regulations, rules and policies.”

Nevertheless, the audit conducted by Conrad (the “auditor”) was explicitly based on applying the standards found in the U.S. CFR. When the auditor’s error was pointed out during the course of the audit, the auditor insisted that its (erroneous) legal interpretation was valid and that the U.S. CFR standards were appropriate. Only *after* the exit conference, when its error was also pointed out by the U.S. State Department, did the auditor remove explicit references to the U.S. CFR standards from its findings. The substance of the auditor’s findings, however – based on those wrong standards – has not changed.

While the auditor should have limited its review of the SAJA program to “evaluating costs incurred against the terms of the awards,” in fact the terms of the LOAs are either ignored entirely or, in some cases, blatantly misquoted. Similar treatment is given to IDLO policies and procedures. The auditor has instead put forward a review predicated on whether costs were “allowable,” “authorized,” and “reasonable” according to its own standards entirely divorced from the applicable agreements. The auditor has further applied those standards to reach findings of “noncompliance” with “certain provisions of laws [and] regulations” that it does not and cannot identify.

The auditor’s judgment that questioned costs are “not supported with adequate documentation” – a judgment that applies to 99.7% of the questioned costs it has identified - is therefore based not on what either the United States or IDLO considers “adequate” and is entirely without merit. While space does not permit IDLO to go into every detail here, IDLO provided an itemized response to each questioned entry pointing out the errors in the auditor’s analysis. In the end, the auditor’s report identifies only a handful of transactions in which there is a yet unanswered question. A total of \$3,556 may have been charged to the SAJA program incorrectly.

In providing this response, IDLO is not claiming perfection. Over the six-year period of the SAJA program, IDLO’s financial and accounting procedures have evolved, sometimes significantly, and IDLO continues to make improvements in its procedures. Ironically, the

auditor's findings repeatedly criticize IDLO for alleged failures to follow procedures that had yet to be adopted while recommending adherence to the very procedures that IDLO now employs.

IDLO voluntarily complied with SIGAR's audit request with the expectation that the audit would be conducted fairly. Consistent with the LOAs, the SAJA program was audited annually by independent, major firms (Ernst & Young and PricewaterhouseCoopers) applying International Standards on Auditing. All of those audits led to unqualified opinions. In this audit there were of course extenuating circumstances brought about by the global pandemic. Prior audits were based on first-hand physical access to documentation and people and a far deeper understanding of IDLO and its procedures than the auditor here could have been able to establish through its remote interviews. But unfortunately, IDLO's expectation has not been met. For the reasons set forth here and below, IDLO disagrees with all the findings set forth in the audit report.

## **Responses to Specific Findings**

### *2020-01: Personnel Costs*

The bulk of this finding is based on assertions of "missing" or "incomplete" timekeeping documentation, but those allegations are based on unspecified standards, not on either the LOAs or IDLO rules and policies.

There is *no* requirement in the LOAs that IDLO keep timesheets. The LOAs establish outputs and outcomes for the SAJA program for which IDLO is responsible and outline an agreed budget to achieve those outputs and outcomes, including allocating costs of certain personnel whose efforts were necessary to enable IDLO to deliver. IDLO salaries are not charged to the project based on time spent nor are the LOAs based on any contract principles under which employees must account for their hours.

The auditor has also misunderstood the relevant IDLO policies and procedures. IDLO has used timesheets for a number of different purposes over the course of the SAJA program (including for budgeting and to document attendance of employees or contractors) and the relevant forms and procedures have evolved accordingly. The purpose has never been, however, to "document labor charges to programs." Rather, as explained in the IDLO Cost Policy Statement and in the documentation regarding IDLO's new pilot timekeeping system, the main goal is to allow IDLO to better identify time spent in institutional vs. program-specific activities and thus to better allocate IDLO costs across the organization. IDLO has also accommodated requests from donors for specific types of time records, but INL does not request such records, and in any event the policy for the new timekeeping system sets forth that the timesheets created in that system are not for submission to donors. Thus, it is simply not true, as the auditor asserts, that "IDLO's internal policies specifically note that timesheets must be sufficiently accurate to ensure that costs are correctly charged to programs."

IDLO can only presume that the specific concerns itemized in the auditor's report are based on notions of how timesheets should be compiled, reviewed, certified, and kept in



accordance with standards under the U.S. CFR. Those standards are of course inapplicable. Similarly, the concerns about “inadequate” allocation and “irregularities” cited in the report display only a lack of understanding by the auditor of IDLO’s policies and procedures and of the history of IDLO work in Afghanistan. For example, although IDLO has over time supported multiple projects in Afghanistan, the majority of the personnel whose time the auditor questioned were hired to work exclusively on the SAJA program and there was therefore no need of documentation to “allocate” their time among IDLO projects. Similarly, the auditor questions the time of numerous personnel in the early days of the SAJA program based on contracts that do not identify their purpose as working on SAJA, ignoring the budget realignments and other documentation that IDLO provided to show that with INL approval those personnel shifted some or all of their time to SAJA. And the auditor’s questions regarding approvals of time reports and denotation of “extra time” in the new pilot timekeeping system show a lack of familiarity with the operations of that system.

The auditor considers it an “irregularity” that personnel time costs were allocated according to the agreed budget with INL as set forth in LOAs and in subsequent budget realignments. This is ironic. IDLO suggests it instead demonstrates IDLO’s continuing fidelity to its obligations and to its rules and procedures. The auditor’s recommendation to change those rules and procedures and adopt a different model inconsistent with the LOAs should be rejected.

#### *2020-02: Direct Program Costs vs. Overhead*

In the LOAs, the United States and IDLO agree that funds provided “are inclusive of the required Program support cost of 12 per cent **plus any specific additional Program delivery costs required and included in Program budgets.**” The auditor’s inexplicable omission of the emphasized portion of the sentence in its quote in the report betrays the fundamental misunderstanding that underlies this finding.

IDLO’s mandatory overhead rate of 12 per cent includes the costs of enabling services that are not directly attributable to any specific project. These services are distinguished from program delivery costs (now called direct project support costs), which include a charge for the time of employees that are directly involved in the implementation of a given project. In its citations to IDLO cost recovery policies as set forth by the Assembly of Parties and Standing Committee, the auditor again elides the parts of the policies that refer to the very costs that the auditor questions. In this regard it is worth quoting at length from the IDLO Cost Policy Statement, adopted by the Standing Committee in 2018 when that Committee was chaired by the United States as President of the Assembly of Parties:

Project direct costs can include expenditure related to project specific employees (salary, benefits, posting and orientation/onboarding training), travel and Daily Subsistence Allowance (DSA), subgrants to implementing partners, training, seminars, publications, equipment, project premises and any other inputs necessary to achieve the project’s objectives.

**In addition, project direct costs also include time allocation of IDLO’s specific internal expertise that is traceable to a given project (also called project direct support costs). This includes thematic and/or technical input from the various departments within the Organization. It also includes project specific costs related to advocacy work, research and learning, communications, external relations management, human resources, administrative services, financial management, procurement, ICT, and legal stewardship.**

The entire second paragraph is replaced by ellipsis in the auditor’s report.

The questioned costs were all set forth in the project budgets approved in advance by the United States and were properly allocated and charged consistent with IDLO policies. In the early years of the SAJA program (2014-16), the Afghanistan portfolio represented approximately 60% of IDLOs global revenue and required closer monitoring by and direct involvement of the Director-General and other senior leaders. This was not merely general supervision. Under SAJA II, contrary to the auditor’s assertion, the time of most of those individuals was no longer charged to the program as direct project support. In all cases, there was no double counting. Salaries allocated as direct project support costs are not included in IDLO’s overhead rate.

The auditor’s recommendation that IDLO better document the division between direct project support and overhead is ironic because that is exactly the purpose of the new pilot timekeeping system that, as noted previously, the auditor has also misunderstood. The auditor’s other recommendations (that IDLO should revise or redevelop its cost allocation policies) address political decisions made by the United States and other IDLO Member Parties and are not properly the subject of a financial audit. Those recommendations do serve as a tacit acknowledgment by the auditor, however, that there is no “noncompliance” with existing policies.

#### *2020-03: Allocation of Costs among Projects*

The only basis cited for this finding is the generic statement in the LOAs that IDLO shall keep regular and accurate financial and other records related to its implementation of the SAJA program. Records were provided to support every questioned charge, however, and the auditor does not actually question any of those records. Rather, the auditor questions the methodology by which IDLO allocates costs among projects. Of course, in view of the fact that IDLO is an intergovernmental organization and not just a contractor or implementing agency, the LOAs expressly provide that funds were to be “administered by IDLO in accordance with the applicable IDLO regulations, rules, and policies.” The auditor’s preferred cost allocation methodologies cannot substitute for the terms of the LOAs.

For the entire life of the SAJA program, IDLO operated multiple projects out of its office in Afghanistan, including multiple projects funded by the United States. The LOAs specifically contemplate that IDLO will “identify and maximize areas where its Afghanistan programs can combine efforts or share resources to ensure maximum effectiveness and efficiency, e.g., by

sharing security management, procurement, and translation services.” They further establish that “shared costs will be allocated pro-rata to the different Program budgets.” The budgets themselves then establish the agreed rates, subject to occasional realignment or amendment as agreed with the donor.

The overwhelming majority of questioned costs under this finding (99.2%) are for entries where the allocation was at or below the agreed rate. In only 2 instances has the auditor identified costs that may have been over-allocated to SAJA. IDLO is reviewing these transactions, amounting to \$3,482, and will take appropriate action.

The auditor has recommended that IDLO develop “comprehensive procedures” for allocating costs among projects. In fact, such procedures exist and were explained during the audit. When IDLO raised questions as to what further procedures the auditor deemed lacking, the auditor asserted that IDLO should take steps such as putting meters on telephone, internet, and fuel usage and requiring security officers to record the amount of time they spend considering the security of different co-located staff members so they can allocate their time to different projects. Such measures are neither required nor sensible.

#### *2020-04: Documentation of Certain Training and Operating Costs*

This finding addresses two separate sets of transactions – 13 training transactions from 2016 and 4 procurement transactions.

With respect to the training transactions, IDLO explained to the auditor that the process used for certain types of reimbursements in Afghanistan was different from IDLO’s normal processes and produced a memo outlining the process. The auditor dismissed the memo as irrelevant because it post-dated the transactions at issue, even though it specifically says it codifies existing processes, and yet at the same time criticizes IDLO for not following a document retention policy that was not issued until two years after that. In any event no questions were raised about the appropriateness of the IDLO policy and the more recent transactions that continue to apply it.

With respect to the procurements, the auditor incorrectly alleges IDLO could not provide a bid or proposal package for the questioned procurements. In fact, IDLO did provide documentation for two of the transactions (although in one case the upload seems to have been blocked by the auditor’s system), and further explained that the other two related to continuing services (telephone) for which the procurements were completed prior to the start of the SAJA program. IDLO is now in the process of re-tendering for telephone services in Afghanistan consistent with its Procurement Policies and Procedures.

With respect to the auditor’s recommendation to train staff on record retention requirements, in fact IDLO has done so and continues to do so. The auditor cites to no questioned costs that post-date the introduction of the cited Document Retention Policy nor for that matter any that post-date IDLO’s introduction of and training on Navision Enterprise Resource Planning software.

*2020-05: “Ineligible” Costs*

The auditor suggests that it is a “significant deficiency” in IDLO’s internal controls that 2 transactions were allegedly incorrectly charged to the SAJA program. Although on its face this finding appears farcical, IDLO nevertheless is forced to respond.

With respect to one of the transactions, IDLO has already explained and provided documentation to show that the auditor’s concerns are without merit. In this instance, costs charged to SAJA for fuel expenses carried supporting documentation that pointed to a “Legacy INL” project (a colloquial way to reference the INL-funded National Justice Sector Support project, referred to by its proper name elsewhere in the document). That project, however, had ended in September 2014, and could not have been charged for November 2014 fuel expenses. Instead, those expenses were of course properly charged to the SAJA project, which followed the NJSS project right after its end date and took over its bank account, and the documents show the expense was approved by the SAJA Chief of Party. In other words, the reference to “Legacy INL” in the document is not evidence of mischarging of costs. It is a typo.

During the audit, IDLO had already acknowledged there had been a mistake in the other transaction. A piece of equipment was mistakenly allocated 100% to SAJA when it should have been only 70%. This resulted in \$74 wrongly charged to SAJA that should have been allocated to another INL project. Because both projects in question were funded by INL, there was no adverse impact on the United States. And this small error – amounting to 0.0002% of the audited costs – hardly justifies mentioning at all, let alone the auditor’s recommendation that IDLO develop new policies and procedures to address it.

**International Development Law Organization (IDLO)**

Financial Audit of Costs Incurred Agreements SINLEC17VC0242 and SINLEC17VC0289  
Supporting Access to Justice in Afghanistan (SAJA) Programs

For the period September 16, 2014 through February 28, 2020

Auditor's Rebuttal to IDLO's Responses to the Audit Findings

IDLO provided a general response to the audit report and disagreed with all the findings. Below is a summary of IDLO's responses to the audit, and our rebuttal:

**General Response:**

- IDLO stated it is an international, intergovernmental organization with privileges and immunities recognized under United States Law. As a foreign public entity, they stated they are not subject to the United States Code of Federal Regulations but rather subject to internal and external auditing procedures laid down in the financial regulations, rules and policies of IDLO.
- IDLO claimed that the auditor conducted the audit based on applying the standards found in the U.S. CFR. IDLO also stated the auditors should have limited their review of the program to "evaluating costs incurred against the terms of the awards" not on "whether costs were allowable, authorized, and reasonable according to its own standards entirely divorced from the applicable agreements".
- Furthermore, IDLO stated the auditor's judgment on the questioned costs which did not have adequate support was not based on what either the United States or IDLO considers "adequate" and is entirely therefore, without merit. IDLO claimed that in the end there is only a handful of transactions without adequate support and as such, there may be a total of \$3,556 total questioned costs charged incorrectly to the SAJA program.

**Auditor's Rebuttal to General Response:**

- IDLO's argument that as an Intergovernmental Organization it enjoys privileges and immunities recognized under United States law is concerning. The privileges enjoyed by Intergovernmental Organizations does not give them license to ignore basic responsibilities to keep accurate records or for that matter charge the US government for items that are unrelated to the funded programs.
- IDLO's repeated claim that the audit was conducted by applying the standards in accordance with the U.S. Code of Federal Regulations is blatantly false. As stated in our Independent Auditor's Report, Conrad conducted the 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 (GAGAS). These standards required that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

We conducted the compliance portion of the audit in accordance with the terms of the LOAs as well as IDLO's existing policies and procedures. As stated in the term of the LOAs, IDLO is required to "*keep regular and accurate financial and other records and accounts of the implementation of SAJA*". Also, as described previously, the audit procedures performed were in accordance with GAGAS, which require auditors to obtain reasonable assurance that statements

are free from material misstatement. During the course of the audit, we found that IDLO's records lacked accurate and sufficient support, as identified in each finding and did not provide the auditor with assurance that the SPFS is free from material misstatement.

Finally, as stated in the Independent Auditor's Report, the audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the SPFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the SPFS, whether due to fraud or error. Also, the auditor is required to obtain sufficient and appropriate evidence in order to provide the basis our opinion. GAGAS 3.109, *Professional Judgment*, states "Auditors must use professional judgment in planning and conducting the engagement and in reporting the results". In addition, GAGAS 3.111, states "Using the auditor's professional knowledge, skills, and abilities, in good faith and with integrity, to diligently gather information and objectively evaluate the sufficiency and appropriateness of evidence is a critical component of GAGAS engagements. Professional judgment and competence are interrelated because judgments made depend upon the auditor's competence." Our management team has over 20 years in conducting audits in accordance with GAGAS, which demonstrates our experience and competence in exercising our professional judgment. As cited in all findings identified, IDLO did not provide sufficient and appropriate evidence, based on auditor's judgement, to demonstrate the SPFS is free from material misstatement and as such a qualified opinion was issued.

- IDLO's claim that the questioned costs are based on a definition of "adequate" that differs from the United States and IDLO's definition of "adequate support" is without merit. While Conrad cannot speak to IDLO's understanding of adequate documentation, the LOA's speak to the government's understanding of adequate documentation.

## **Response and Rebuttal to Specific Findings:**

### **FINDING 2020-01**

1. IDLO states that charges of missing and incomplete documentation are based on unspecified standards, and that the LOAs do not require IDLO to keep timesheets and deflects by saying the LOA's are concerned with outputs and outcomes based on the agreed budget.

#### **Auditor's Rebuttal:**

- IDLO's response here is cause for alarm because it acknowledges that IDLO charged the US government for budgeted costs and not for costs incurred – which raises new substantial doubt about the accuracy of the entirety of personnel costs charged not only to the SAJA projects, but also other IDLO projects.
- As IDLO asserted, employee's salaries charged to the projects were not based on actual time spent on each specific project, rather, costs charged were based on the pre-determined budget. This assertion further demonstrates that salaries charged to the projects were not accurate.
- IDLO's assertion that Conrad based their findings on unspecified standards is false. The LOA states that "all expenditures paid with funds provided in this LOA must be incurred for authorized activities...". The LOA clearly states that costs must be incurred. Determining if costs have been incurred is the baseline in any audit. Perhaps the problem is that IDLO does not understand the terms of the LOA or they do not understand the difference between an incurred cost and a budgeted amount.
- The purpose of a budget is to propose the estimated costs for running the projects to the Government award. Estimates alone do not qualify as support for charges to awards. The

contractor's internal system should include internal controls processes to review after-the-fact interim charges made to a Federal award based on budget estimates. All necessary adjustments must be made such that the final amount charged to the award is accurate, allowable, and properly allocated.

2. IDLO asserts that Conrad misunderstands IDLO's timekeeping policies and procedures. The timekeeping procedures facilitate a number of different purposes including budgeting but was never meant to document labor charges to programs. They state, "the main goal is to allow IDLO to better identify time spent in institutional vs. program-specific activities and thus to better allocate IDLO costs across the organization."

**Auditor's Rebuttal:**

- This assertion is extremely damaging to IDLO. Funding agencies rely on an organizations' ability to properly manage awarded funds. One way to assess an organizations' ability to manage funds is to review the internal controls including policies and procedures.
- IDLO's statement that the policies and procedures are not meant to document labor charges to the programs is worrisome, and raises an important question, as to whether or not they have policies and procedures that govern incurred costs.
- Prior to IDLO's response, Conrad relied on the policies and procedures - provided by IDLO - governing direct costs, and their new time keeping system. These policies and procedures do not include language that would indicate the policies and procedures are for internal purposes only. In fact, Section 3.2.a of IDLO's "Approved Cost Policy Statement" explicitly states that "...allocations are charged against each program using timesheets to arrive at the amounts charged to programs".

3. IDLO states that timesheets created in the time-keeping system are not for submission to donors.

**Auditor's Rebuttal:**

- IDLO may not understand the purpose of a timekeeping system. While IDLO may not be submitting physical timesheets to donors, the purpose of the time-keeping system is clear. As noted within the finding, in a memo dated March 25, 2019, IDLO acknowledged:

"We have a pressing demand from Donors to provide supporting evidence for the allocation of employees' time across programs and institutional activities. By allocating employee time to Programs and other activities, we will be better placed to charge more accurately for our programs and to ensure that we have a transparent cost allocation process."

- This statement clearly indicates that IDLO recognizes that Donors not only want supporting evidence for the allocation of employee's time across programs and activities, but that the system is being designed with the express purpose of facilitating transparent cost allocation processes to accurately charge programs for wages.

4. IDLO presumes Conrad's concerns are rooted in the US CFR.

**Auditor's Rebuttal:**

- Simply reiterating this claim over and over again will not make it true. In fact, a casual reader of the report should be able to determine that the CFR was not once used as criteria in any of the report's findings.
- This claim is a distraction from the very real issues identified in the findings.

- Accurate record keeping is not an esoteric requirement applicable only to entities subject to the CFR.
5. IDLO states that Conrad's understanding of inadequate and irregular allocations displays a lack of understanding of IDLO's policies and procedures and the history of IDLO in Afghanistan.

**Auditor's Rebuttal:**

- The LOAs, and IDLO's policies and procedures, as written, support the idea that records should be regular and accurate.
- As much as IDLO would like to suggest otherwise, there is very little nuance in the terms "regular and accurate." Conrad used a very rudimentary interpretation of these terms, noting that at a minimum "regular and accurate" timekeeping should include:
  - recording actual time worked - not estimates.
  - actual time worked should be tracked under each specific program, along with time records being regularly certified and dated at the end of each pay period by the employee and supervisor.
  - for employees or consultants where time tracking to a specific program is not practical, such as security, cook and driver positions, an accurate and after the fact allocation methodology should be used to charge time to the program rather than these charges being solely based on program budget percentages.
- Unfortunately, there was insufficient evidence to assure Conrad that the costs certified in the SPFS were accurate and not materially misstated.
- Finally, IDLO uses faulty logic when it conflates adequate and regular allocations with an understanding of its history in Afghanistan. A special understanding of IDLO's history would not change the requirements set forth in the LOAs to keep regular and accurate accounting records, full stop. In addition, the LOAs required that "all expenditures paid with funds provided in this LOA must be incurred for authorized activities...". Furthermore, if an understanding of IDLO's history in Afghanistan was critical to how costs should be recorded and charged to the projects it would have been mentioned in the LOAs.

**FINDING 2020-02**

1. IDLO claims that Conrad misunderstands what can be charged as a program direct cost. IDLO asserts that the LOAs and their internal policies provide a path for directly charging management costs to the projects. The LOAs stipulate provided funds "are inclusive of the required Program support cost of 12% plus any specific additional program delivery costs required and included in program budgets." They further state that IDLO's policies include provisions that would allow for the allocation of IDLO's specific internal expertise if it is traceable to a given project to be charged as a direct cost.

**Auditor's Rebuttal:**

- Conrad does not misunderstand the difference between overhead and direct project costs. Overhead costs are costs that cannot be linked as direct costs to the government-funded program or activity and are intended to cover administrative type costs, such as personnel responsible for supporting general operations of the organization's fundraising, monitoring and development, administrative support and logistics, and financial monitoring. These types of costs are distinct from direct project costs – which are costs that are linked to the implementation of a specific program and are traceable. According to IDLO's note on Program Financing Structure, direct program costs "are non-IDLO Secretariat staff costs incurred when implementing a program..."



- Conrad found that IDLO was charging Administrative and Headquarter personnel as direct costs even though: the categories of personnel were not linked directly to the projects, the duties performed were covered in the 12% overhead rate, IDLO did not provide evidence that the charges were distinct from the overhead costs, and most importantly there was no documentation supporting or justifying the allocated time was traceable to the projects.

2. The questioned costs were set forth in the project budgets which were approved in advance by the United States and were properly allocated and charged consistent with IDLO policies.

**Auditor's Rebuttal:**

- As stated previously, budgets define what is authorized, but actual expenditures charged to the program must not only be incurred, they must also be allocable to the projects. Unfortunately, IDLO did not provide evidence demonstrating that the direct costs charged to the Government were properly allocated, linked, and traceable to the SAJA projects.
3. In all cases, there was no double counting. Salaries allocated as direct project support costs are not included in IDLO's overhead rate.

**Auditor's Rebuttal:**

- This is an unfounded claim. IDLO did not provide evidence in support of this claim.
  - Conrad maintains that the government may have been charged twice for costs, because IDLO's internal controls failed to provide a check to assure that costs were segregated and not duplicated in invoices to the government.
4. In addition, IDLO stated that the new pilot timekeeping system's exact purpose is to document the division between direct project support costs and overhead costs.

**Auditor's Rebuttal:**

- Conrad was unable to see the full functionality of the timekeeping system and is unable to concur if the timekeeping system delineates overhead costs from direct costs in a way that prevents double charges.
5. IDLO argues that recommendations to revise or redevelop its cost allocation policies are outside the scope of a financial audit and implies that its cost allocation policies are political decisions.

**Auditor's Rebuttal:**

- IDLO does not understand financial audits. Recommendations are a required element of a finding.
- Creating policies that facilitate accurate cost allocation is not a political decision. In fact, International Public Sector Accounting Standards (IPSAS) would require such policies.

**FINDING 2020-03**

1. IDLO stated they provided documentation supporting the allocation of costs among projects.

**Auditor's Rebuttal:**

- This claim is not true. While IDLO provided documentation for some of the allocated costs tested, Conrad identified 44 transactions where IDLO did not provide accurate allocation support for the percentage of shared costs charged to the programs.

2. IDLO also states that since IDLO is an intergovernmental organization, funds are to be “administered by IDLO in accordance with the applicable IDLO regulations, rules, and policies”.

**Auditor’s Rebuttal:**

- IDLO at no time during the audit, or in its response, submitted regulations, rules or policies that govern the direct cost allocation.
  - As such, Conrad relied on the LOA for guidance, which states “IDLO shall keep regular and accurate financial and other records and accounts.” Conrad interprets “regular and accurate in this context to mean:
    - Allocated costs must benefit the programs to which they are allocated.
    - The methodology used should be reasonable and should approximate the program’s use of the costs charged.
    - The methodology or rationale used should be consistently applied.
    - Allocation based on budget estimates (i.e., estimates determined before the services are performed) alone does not qualify as support for charges to awards.
3. IDLO further stated that the shared costs were allocated based on the budgets and subsequent realignments or amendments as agreed by donor, and most the costs in question are under the approved budget.

**Auditor’s Rebuttal:**

- Once again, IDLO misstates the purpose of the budget. Costs charged to the project cannot and should not be based on the budget. Amounts charged to the projects must also be allocable, and accurate.
  - The fact that the costs charged were at or below the approved rate is not relevant as the basis of the cost must first be allocable, and second it must be allocated using a reasonable allocation method.
4. In addition, IDLO further claimed that the auditor had asserted IDLO with recommendations such as putting meters on telephone, internet, and fuel usage and requiring security officers to record the amount of time they spend considering the security of different co-located staff members so they can allocate their time to different projects. Such measures are neither required nor sensible.

**Auditor’s Rebuttal:**

- This claim has no merit and is a false statement. Conrad provided recommendations during fieldwork that are consistent with the recommendations as described in the previous paragraph regarding properly allocating costs to the projects. Our finding and recommendations remain.

**FINDING 2020-04**

1. IDLO stated, for the training transactions in question, the process for reimbursements in Afghanistan was different from IDLO’s normal process for which a memo post-dating the transactions was provided which codifies existing processes.

**Auditor's Rebuttal:**

- IDLO's response regarding the policies and procedures in place is a distraction from the condition that 13 travel transactions lacked documentation supporting travel expenses charged to the projects.
  - In the absence of supporting documentation, the finding and questioned costs remain.
2. Procurement Documentation. IDLO asserts they provided documentation for two of the transactions (although in one case the upload seems to have been blocked by the auditor's system), and further explained that the other two related to continuing services (telephone) for which the procurements were completed prior to the start of the SAJA program.

**Auditor's Rebuttal:**

- Transactions after the start of the SAJA program - IDLO's assertion that they provided documentation for two of the transactions is false, as Conrad never received documentation supporting the transactions questioned. Furthermore, IDLO's claim that Conrad's system blocked its access to upload documents, is not only false but also misleading. Conrad provided IDLO with multiple avenues to upload documents and even set up a post field work folder granting access to the entire IDLO team, but never received the documentation. The inclusion of this claim is misleading as it suggests supporting documentation exists, but due to technical issues they have been unable to submit. To date, IDLO has not submitted documentation for these transactions.
  - Transactions prior to the start of the SAJA program - IDLO maintains that they do not need to provide support for two of the transactions as the procurements were completed prior to the start of the SAJA program. This is faulty reasoning. The fact that the procurement was done prior to the start of the SAJA program is not a documentation waiver. IDLO is not exempt from providing supporting documentation for these transactions.
3. IDLO contends they have always and will continue to train its staff on Navision Enterprise Resource Planning software.

**Auditor's Rebuttal:**

- Throughout the course of the audit, IDLO did not mention the training of staff to the auditor, nor did we see or were provided evidence of training related to document retention.

**FINDING 2020-05**

1. IDLO stated that for one of the transactions, even though supporting documentation indicates the costs are for Legacy INL (also known as INL-funded National Justice Sector Support (NJSS)), the costs were incurred after the end of the Legacy INL project and were approved by the SAJA Chief of Party. Therefore, they deduce those expenses could not have been related to Legacy INL but are actually associated with the SAJA project. They attribute references to Legacy INL in the supporting documentation to typos.

**Auditor's Rebuttal:**

- Conrad reviewed the Legacy INL documentation in question and there is no clear evidence that the cost is associated with the SAJA programs rather than another project. The entire support reviewed only referenced Legacy INL/NJSS and another project called JTTP. IDLO claims that it was charged after the NJSS project end; however, the auditor did not audit the NJSS project, as such, we cannot confirm when the project end date was and if

there was an extension or a close-out phase to the project that could allow costs incurred after the project end. Also, according to one of the supporting documents provided by IDLO, which listed all the employees including both SAJA and other projects, there were numerous employees that were employed from 2015 through 2020 assigned to projects referenced as JTTP/NJSS/AJIS. Therefore, the IDLO response cannot justify the cost is SAJA related.

2. IDLO concurred that the other ineligible cost was mistakenly charged to the SAJA programs. However, IDLO believes the small error – amounting to 0.0002% of the audited costs – hardly justifies mentioning at all, let alone the auditor's recommendation that IDLO develop new policies and procedures to address it.

**Auditor's Rebuttal:**

- IDLO claimed the amount in question was too small to warrant any recommendations. As stated in the condition, 1 out of 6 equipment samples tested and 1 out of 44 operating cost samples tested that were identified with errors, which is 16.67% and 2.23% respectively, in estimated error rates. The percentage alone made this finding a significant deficiency, not to mention these were ineligible costs charged to the SAJA projects. As such, our finding and recommendations remain.

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