

# SIGAR

Special Inspector General for  
Afghanistan Reconstruction

SIGAR 21-45 Financial Audit

## USAID's Strengthening Education in Afghanistan II Project: Audit of Costs Incurred by The Asia Foundation

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



AUGUST  
2021

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On May 19, 2014, the U.S. Agency for International Development (USAID) awarded a \$29,835,920 cooperative agreement to The Asia Foundation (TAF) to support Strengthening Education in Afghanistan II (SEA II) project. The project's objective was to improve the capacity, operations, management, and programing of educational institutions and civil society organizations in Afghanistan. After 15 modifications, the funding increased to \$49,828,942, and the period of performance was extended from May 18, 2019, through September 30, 2021.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$3,476,485 in costs charged to the agreement from October 1, 2019, through September 30, 2020. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in TAF's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether TAF has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of TAF's Special Purpose Financial Statement (SPFS). See Crowe'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 Crowe did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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August 2021

USAID's Strengthening Education in Afghanistan II Project: Audit of Costs Incurred by The Asia Foundation

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SIGAR 21-45-FA

### WHAT SIGAR FOUND

Crowe identified four material weaknesses and three significant deficiencies in TAF's internal controls, as well as three instances of noncompliance with the terms of the agreement. In situations where control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Crowe's seven findings included (1) inadequate micro-purchase procurement procedures, (2) incomplete reporting of sub-award activity, (3) omission of the standard provision for sub-award requirements, (4) inadequate processes for reviewing and approving notes to the SPFS, (5) inadequate monitoring processes over sub-recipient audit requirements, (6) inaccurate reporting of unliquidated obligations, and (7) missing required data elements from sub-award agreements. Specifically, the auditors found that TAF did not have adequate procedures to indicate when a sub-recipient is required to perform an audit and submit the report to TAF, and did not include all required standard provisions in the sub-award agreement. For example, TAF did not report data elements from three sub-awards, as required under the agreement. Additionally, the auditors determined that TAF did not specify the methods its management used to ensure micro-purchases were equitably distributed among vendors and did not exceed the allowable cost threshold. Ultimately though, the auditors determined that the findings were procedure-related matters and the incurred costs were allowable.

Therefore, Crowe did not identify any questioned costs, which would have consisted of ineligible costs—costs prohibited by the agreement, applicable laws, or regulations—and unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Crowe identified seven prior audit reports that were relevant to TAF's agreement. Three of the audits had findings that could have a material effect on the SPFS and other financial data that were significant to this audit's objectives. Crowe conducted follow-up procedures and concluded that TAF took adequate correction action on the findings.

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

### WHAT SIGAR RECOMMENDS

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

- 1. Advise TAF to address the report's seven internal control findings.**
- 2. Advise TAF to address the report's three noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

August 19, 2021

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

Mr. Peter Duffy  
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by The Asia Foundation (TAF) under a cooperative agreement from the U.S. Agency for International Development (USAID) to support Strengthening Education in Afghanistan II (SEA II) project.<sup>1</sup> The agreement's objective was to improve the capacity, operations, management, and programming of educational institutions and civil society organizations in Afghanistan. Crowe reviewed \$3,476,485 in costs charged to the agreement from October 1, 2019, through September 30, 2020. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Advise TAF to address the report's seven internal control findings.**
- 2. Advise TAF to address the report's three noncompliance findings.**

Crowe discusses the results of the audit in detail in the attached report. We reviewed Crowe's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on TAF's Special Purpose Financial Statement. We also express no opinion on the effectiveness of TAF's internal control or compliance with the agreement, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Crowe did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for planned completion for the recommendations to [sigar.pentagon.audits.mbx.recommendation-followup@mail.mil](mailto:sigar.pentagon.audits.mbx.recommendation-followup@mail.mil), within 60 days from the issue date of this report.

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-202)

<sup>1</sup> The agreement number is AID-306-A-14-00008-00.



**The Asia Foundation**  
**Strengthening Education in Afghanistan (SEA II)**  
**Cooperative Agreement No. AID-306-A-14-00008-00**  
**Special Purpose Financial Statement**  
**For the Period October 1, 2019 through September 30, 2020**  
**(With Independent Auditor's Report Thereon)**

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## TRANSMITTAL LETTER

May 3, 2021

To the Board of Trustees and Management of The Asia Foundation  
465 California Street, 9<sup>th</sup> Floor  
San Francisco, CA 94104

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of The Asia Foundation's ("TAF") special purpose financial statement to United States Agency for International Development ("USAID") cooperative agreement number AID-306-A-14-00008-00 to support the Strengthening Education in Afghanistan program for the period October 1, 2019 through September 30, 2020.

Within the pages that follow we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, our report on internal control and our report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of TAF, USAID and the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses are incorporated as Appendix A to this report.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of The Asia Foundation's cooperative agreement.

Sincerely,

A handwritten signature in black ink that reads "John C. Weber".

John C. Weber, CPA  
Partner  
Crowe LLP

## Summary

### Background

On May 19, 2014, the United States Agency for International Development (“USAID”) awarded \$29,835,920 cooperative agreement number AID-306-A-14-00008-00 to The Asia Foundation (“TAF”) to support the Strengthening Education in Afghanistan (“SEA II”) program for the period of performance from May 19, 2014, through May 18, 2019. The overall objective of the SEA II program is to improve institutional capacity, operations, management, and programing of educational institutions and civil society organizations in Afghanistan that implement activities in line with higher and basic education needs of Afghanistan as expressed in the Ministry of Higher Education (“MoHE”) and Ministry of Education (“MoE”) strategic plans. The SEA II program aimed to assist Afghan education institutions and non-governmental organizations with the development and strengthening of their programmatic activities through technical assistance, training, and financial support. The program included three main components:

- Program Component 1: Programmatic Support to Targeted Organizations;
- Program Component 2: Capacity Building for Improved Sustainability; and
- Program Component 3: Flexible Education Grants Program.

Fifteen (15) modifications to the cooperative agreement increased the total funding to \$49,828,942 and extended the period of performance from May 18, 2019 to September 30, 2021. The modifications are summarized below:

Modification No.	Highlights
1	<ul style="list-style-type: none"> <li>• Provide incremental funding in the amount of \$6,904,458.84, increasing the total obligated amount from \$2,267,041 to \$9,171,499.84;</li> <li>• Correct Sub-Awardee name of “Linda Norgrove Foundation” with “Canadian Women for Women in Afghanistan”; and</li> <li>• Amend section A.18 Branding and Marking Plan submission date from 60 days to 45 days.</li> </ul>
2	<ul style="list-style-type: none"> <li>• Designate the Agreement Officer’s Representative (AOR) and the Alternate Agreement Officer’s Representative (A/AOR) to Jannie Kwok as AOR and [REDACTED] as A/AOR.</li> </ul>
3	<ul style="list-style-type: none"> <li>• Realignment of the approved budget; and</li> <li>• Incorporation of Standard Provision USAID Implementing Partner Notices (IPN) Portal for Assistance (July 2014).</li> </ul>
4	<ul style="list-style-type: none"> <li>• Designate the AOR and A/AOR to Alexander Starr as AOR and Avian Amit as A/AOR.</li> </ul>
5	<ul style="list-style-type: none"> <li>• Designate the AOR and AOR/R as [REDACTED] as AOR and Alexander Starr as A/AOR; and</li> <li>• Incorporate Standard Provision Pilot Program for Enhancement of Grantee Employee whistleblower Protections (September 2014).</li> </ul>
6	<ul style="list-style-type: none"> <li>• Revision of the awards Program Description through the addition of activities to Attachment B – Program Description, section B.1 Project Component 1: Programmatic Support to Targeted Organizations.</li> </ul>

(Continued)

Modification No.	Highlights
7	<ul style="list-style-type: none"> <li>Extend the period of performance to September 30, 2020;</li> <li>Increase the Total Estimated Cost (TEC) of the Agreement to \$15,000,000, from \$29,835,920 to \$44,835,920;</li> <li>Increasing incremental funding by \$15,148,450, increasing the obligated amount from \$9,171,499.84 to \$24,319,949.84;</li> <li>Designate Abdul Alim Ghafary as AOR and Mohamad Asif Walizada as A/AOR;</li> <li>Incorporate IEE Name Change from SEA to SEA II; and</li> <li>Update the financial reporting requirements to reflect the addition of Promote activities.</li> </ul>
8	<ul style="list-style-type: none"> <li>Provide incremental funding in the amount of \$4,150,000, increasing the total obligated amount from \$24,319,949.84 to \$28,469,949.84; and</li> <li>Designate [REDACTED] as the A/AOR.</li> </ul>
9	<ul style="list-style-type: none"> <li>Designate the AOR as [REDACTED] and A/AOR as [REDACTED].</li> </ul>
10	<ul style="list-style-type: none"> <li>Update the award budget;</li> <li>Change the applicable regulation from 22 CFR 226 to 2 CFR 200 and 2 CFR 700;</li> <li>Update the Standard Provisions in the award; and</li> <li>Update the Special Provisions in the award.</li> </ul>
11	<ul style="list-style-type: none"> <li>Provide incremental funding in the amount of \$3,500,000, increasing the total obligated amount from \$28,469,949.84 to \$31,969,949.84; and</li> <li>Update the AOR for the award in the GLAAS.</li> </ul>
12	<ul style="list-style-type: none"> <li>Provide incremental funding in the amount of \$4,670,533, increasing the total obligated amount from \$31,969,949 to \$36,640,482.84.</li> </ul>
13	<ul style="list-style-type: none"> <li>Final update to the approved budget.</li> </ul>
14	<ul style="list-style-type: none"> <li>Provide incremental funding in the amount of \$8,195,437.16, increasing the total obligated amount from \$36,640,482.84 to \$44,835,920.</li> </ul>
15	<ul style="list-style-type: none"> <li>Extend the period of performance of the Cooperative Agreement from September 30, 2020 to September 30, 2021; and</li> <li>Increase the Total Estimated Amount of the Agreement by \$4,993,022 from \$44,835,920 to \$49,828,942.</li> </ul>

Our audit procedures included a review of total costs incurred of \$3,476,485 reported by The Asia Foundation for the period October 1, 2019, through September 30, 2020.

## Work Performed

Crowe LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of costs incurred under by The Asia Foundation to support of the Strengthening Education in Afghanistan ("SEA II") program for the period October 1, 2019, through September 30, 2020.

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## Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan*:

### **Audit Objective 1 – Special Purpose Financial Statement**

Express an opinion on whether The Asia Foundation's Special Purpose Financial Statement ("SPFS") for the cooperative agreement presents fairly, in all material respects, revenues earned, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the cooperative agreement and generally accepted accounting principles or other comprehensive basis of accounting.

### **Audit Objective 2 – Internal Controls**

Evaluate The Asia Foundation's internal control system related to the award and identify and report on significant deficiencies, including material weakness in internal control.

### **Audit Objective 3 – Compliance**

Determine whether The Asia Foundation complied, in all material respects, with the award requirements and applicable laws and regulations.

### **Audit Objective 4 – Corrective Action on Prior Findings and Recommendations**

Determine and report on whether The Asia Foundation has taken adequate corrective action to address findings and recommendations from previous engagements that could have had a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives.

## Scope

The scope of the audit included total reported costs incurred of \$3,476,485 during the period October 1, 2019 through September 30, 2020. The audit was limited to those matters and procedures pertinent to the cooperative agreement that could have a direct and material effect on the SPFS. The audit also included an evaluation of the presentation, content, and underlying records of the SPFS. Further, the audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Activities;
- Allowable Costs;
- Cash Management;
- Eligibility;
- Procurement;
- Reporting; and
- Subrecipient Monitoring.

## Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee's internal controls over compliance and financial reporting and determined if adequate corrective action was taken in response to prior audit, assessment, and review comments, as applicable.

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To address Audit Objective 1, which pertains to The Asia Foundation's SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded accurately and were consistent with the terms and conditions of the award; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were appropriately allocated to the cooperative agreement if the cost benefited multiple objectives; and were adequately supported.

In order to address Audit Objective 2, which relates to The Asia Foundation's internal controls, Crowe requested, and the auditee provided copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by The Asia Foundation during the period of performance. To the extent documented policies and procedures were unavailable, Crowe conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 required that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the cooperative agreement. Crowe identified – through review and evaluation of the cooperative agreement executed by and between USAID and The Asia Foundation – the criteria against which to test the SPFS and supporting financial records and documentation. Using various sampling techniques, including, but not limited to, audit sampling guidance for compliance audits provided by the American Institute of Certified Public Accountants, Crowe selected transactions, cash draws, procurements, subrecipients, beneficiaries of the Flexible Education Grants Program and reports for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess The Asia Foundation's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the Negotiated Indirect Cost Rate Agreement issued by USAID. We also performed procedures to determine if adjustments to cooperative agreement expenditures and amounts drawn that were based on preliminary or provisional rates were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of The Asia Foundation, SIGAR, and USAID personnel participating in the audit entrance conference to understand whether there were prior audits, reviews, or assessments that were pertinent to the audit scope. Crowe also conducted an independent search of publicly available information to identify audit and review reports. As a result of the aforementioned efforts, we identified seven prior reports – five of which contained findings and recommendations.

1. Financial Audit of Costs Incurred of the USAID Resources Managed by The Asia Foundation (TAF) Under USAID's AUAF-Financial and Business Management Activity (AUAF-FBMA) Program, Contract No. AID-306-C-17-00014, for the period July 5, 2017 to September 30, 2018; Survey of the Afghanistan People (SAP) Program, Grant No. AID-306-G-12-00003, for the period April 1, 2018 to September 30, 2018; and Strengthening Education in Afghanistan II (SEA II) Program, Cooperative Agreement No. AID-306-A-14-00008, for the period October 1, 2017 to September 30, 2018;
2. The Asia Foundation Fund Accountability Statement – Support for the Loya Jirga and Election Process, for the period August 1, 2003, through April 30, 2010;
3. The Asia Foundation Strengthening Education in Afghanistan (SEA II), Special Purpose Financial Statement, Cooperative Agreement No. AID-306-A-14-00008, for the period October 1, 2015 to September 30, 2017;
4. Financial Audit of Costs Incurred by The Asia Foundation Under Cooperative Agreement Number AID-306-A-13-00001, For the Period December 20, 2015 through December 19, 2016;
5. Audit of Costs Incurred by The Asia Foundation (TAF) Under (1) International Election Observation (IEO), Cooperative Agreement No. AID-306-A-14-00012, For the Period From August 4, 2014, to January 5, 2015 (Closeout); (2) Strengthening Education in Afghanistan (SEA II), Cooperative Agreement No, AID-306-A-00008, For the Period From May 19, 2014, to September 30, 2015; (3) Survey of the Afghanistan People (SAP), Grant No. AID-306-G-12-

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- 00003, For the Period From October 11, 2012, to September 30, 2015; and (4) Ministry of Women Affairs Organizational Restructuring and Empowerment (MORE), Cooperative Agreement No. AID-306-A-13-00001, For the Period From July 1, 2014, to December 19, 2015;
6. Limited Review and Verification of Questioned Costs Associated with Implementing Office Costs Charged by The Asia Foundation Incurred Under Cooperative Agreement No. 306-A-00-09-00514, The Afghan Public Opinion Survey Program, For the Period June 23, 2009 to September 30, 2011; and
  7. The Asia Foundation Single Audit Reports for the Year Ended September 30, 2019.

In each instance, Crowe reviewed the prior audit reports to ascertain whether findings may be direct and material to the audit objectives. In any instances where findings may be direct and material to the audit objectives, Crowe determined whether corrective action from any of the prior findings and recommendations was denoted as unresolved, inadequate, or otherwise incomplete such that additional follow-up is necessary. We determined that one of the audit reports included a finding that could be direct and material to the SPFS or other financial objectives applicable to the audit. In this instance, Crowe performed follow-up audit procedures to determine if the finding had subsequently been remediated. The results of these procedures are documented in **Section II: Summary of Prior Audit, Review and Assessment Findings**.

## Summary of Results

Upon completion of Crowe's procedures, Crowe identified seven findings that met one or more of the following criteria: (1) significant deficiencies in internal control; (2) material weaknesses in internal control; (3) noncompliance with rules, laws, regulations, or the terms and conditions of the cooperative agreement; and/or (4) questioned costs resulting from identified instances of noncompliance.

Crowe issued an unmodified opinion on the SPFS.

Crowe also reported on both The Asia Foundation's internal controls over financial reporting and compliance with applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement. In total, four (4) material weaknesses and three (3) significant deficiencies in internal control were reported. In addition, Crowe reported three (3) instances of noncompliance. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

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

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to TAF's activities under the cooperative agreement. Based on Crowe's communications with TAF, SIGAR, and USAID, Crowe reviewed seven (7) total financial statement and single audit reports. Five of the reports contained a total of twenty (20) findings and recommendations. We assessed the findings to ascertain whether these findings may be direct and material to the Special Purpose Financial Statement or other significant financial data to the audit objectives. During our review of the audit findings, we noted two findings that could have a potential direct or material impact on the Strengthening Education in Afghanistan (SEA II) program. Crowe conducted procedures to determine whether adequate corrective action had been taken on the prior findings. Accordingly, Crowe concluded that TAF took adequate corrective action. **Section II: Summary Schedule of Prior Audit, Review and Assessment Findings** provides additional detail regarding the findings.

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The following 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.

### Schedule of Findings and Questioned Costs

Finding No.	Finding Name	Classification	Questioned Costs (USD)
2020-01	Inadequate Micro-Purchase Procurement Procedures	Significant Deficiency in Internal Control	-
2020-02	Incomplete Reporting of Subaward Activity to the Federal Government	Material Weakness and Noncompliance	-
2020-03	Failure to Include the Sub-Award Requirements Standard Provision	Significant Deficiency and Noncompliance	-
2020-04	Inadequate Process for the Review and Approval of the Notes to the SPFS	Material Weakness in Internal Control	-
2020-05	Inadequate Monitoring Process Over Subrecipient Audit Requirements	Material Weakness in Internal Control	-
2020-06	Inaccurate Reporting of Unliquidated Obligations to the Federal Government	Material Weakness	-
2020-07	Missing Required Information in Subaward Agreements	Significant Deficiency and Noncompliance	-
<b>Total Questioned Costs:</b>			<b>None</b>

### Summary of Management Comments

Management provided responses to the draft audit findings. A summary of management's comments follows:

- TAF partially agreed with Finding 2020-01 and provided additional clarification on their procurement practices related to selection of vendors.
- TAF agreed with Finding 2020-02.
- TAF disagreed with Finding 2020-03 and stated that the clause A.19.19 Sub-Award Requirements (March 2012) was deemed inapplicable for the three subawards identified in the finding due to the subgrants not including further subawards.
- TAF disagreed with Finding 2020-04 and stated that the contents and the language of the SPFS varies between one audit to another and that they disagreed with the SPFS preparation requirements.
- TAF disagreed with Finding 2020-05 and stated that they have established financial monitoring and audit procedures compliant with subpart E of 2 CFR 200.
- TAF disagreed with Finding 2020-06 and stated that the account that amount listed in the general ledger that tracks Grants Payable started as a negative amount in mid FY2019, which resulted in TAF reporting zero unliquidated obligations.
- TAF disagreed with Finding 2020-07 and stated that they believed the data elements provided are sufficient enough to identify our subawards to the relevant federal award.

## Reference to Appendices

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

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

To the Board of Trustees and Management of The Asia Foundation  
465 California Street, 9<sup>th</sup> Floor  
San Francisco, CA 94104

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

**Report on the Special Purpose Financial Statement**

We have audited the Special Purpose Financial Statement (the "Statement") of The Asia Foundation ("TAF"), and related notes to the Statement, with respect to the Strengthening Education in Afghanistan program funded by United States Agency for International Development ("USAID") cooperative agreement No. AID-306-A-14-00008-00 for the period October 1, 2019, through September 30, 2020.

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

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and the terms and conditions of cooperative agreement number AID-306-A-14-00008-00. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a 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 Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

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

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

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(Continued)

## **Opinion**

In our opinion, the Statement referred to above pertaining to cooperative agreement No. AID-306-A-14-00008-00 presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period in accordance with the basis of presentation and accounting described in Notes 1, 2, 4, 5, and 6.

## **Basis of Presentation and Accounting**


We draw attention to Notes 1, 2, 4, 5, and 6 to the Statement, which describe the basis of presentation and accounting. The Statement is prepared in the format required by SIGAR and presents those amounts as permitted under the terms of USAID cooperative agreement No. AID-306-A-14-00008-00, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the cooperative agreement referred to above. Our opinion is not modified with respect to this matter.

## **Restriction on Use**

This report is intended for the information of TAF, USAID, and SIGAR. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

## **Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 23, 2021, on our consideration of The Asia Foundation's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report 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 the effectiveness of The Asia Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Asia Foundation's internal control over financial reporting and compliance.

  
Crowe LLP

April 23, 2021  
Washington, D.C.

The Asia Foundation  
Special Purpose Financial Statement  
Cooperative Agreement No. AID-306-A-14-00008-00  
For the Period October 1, 2019, through September 30, 2020

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	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u> <u>Unsupported</u>	<u>Notes</u>
<b>Revenues</b>					
Agreement Number 720FDA18GR00328	\$ 49,828,942	\$ 3,476,485			
<b>Total Revenue</b>	<u>49,828,942</u>	<u>3,476,485</u>			2, 4
 <b>Costs Incurred</b>					
Salaries	7,544,369	685,023			5
Travel	1,837,249	357,428			
Materials and Supplies	1,043,064	139,400			
Contractual Services	18,669,791	456,961			
Other Direct Costs	15,663,925	1,300,870			
Indirect Costs	5,070,544	536,803			
Cost Transfer	<u>-</u>	<u>-</u>			
<b>Total Costs Incurred</b>	<u>49,828,942</u>	<u>3,476,485</u>			
 <b>Balance</b>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 6

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The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.



**Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement No. AID-306-A-14-00008-00 for the Strengthening Education in Afghanistan II (SEA II) for the period October 1, 2019 through September 30, 2020 with specific audit review for the period mentioned above. Because the Statement presents only a selected portion of the operations of The Asia Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of The Asia Foundation. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal award AID-306-A-14-00008-00. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

Revenues and expenditures reported on the Statement are reported on the accrual basis of accounting. Expenditures are recognized following the cost principles contained in Cost Principles contained in 2 CFR 200, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Foreign Currency Conversion Method**

Every week, The Asia Foundation Afghanistan office transfers the requisite amount from its United State Dollar ("USD") account to its local currency account to meet the weekly payment requirements. The exchange rate applied by the bank for conversion from USD to local currency is used in the weekly transaction batches, so that the official bank rate is applied to convert the local currency payments to equivalent USD while reporting to USAID. With this, the project ledger reflects local currency payments in equivalent USD using the weekly exchange rates.

**Note 4. Revenues**

Revenues on the Statement represent the amount of funds to which The Asia Foundation is entitled to receive from the United States Agency for International Development for allowable, eligible costs incurred under the cooperative agreement during the period of performance.

**Note 5. Costs Incurred by Budget Category**

The previous audits captured the budget category per SF 424 cost categories, approved under each cost modifications. Effective with Modification 7, the Cooperative Agreement summary captured the cost under USAID Funds and Promote Funds, further segregating these as "programmatic expenses" and "administrative expenses". However, to ensure consistency and also for the purpose of proper presentation per expenses categories, the costs are presented in accordance to SF 424 line items.

**Note 6. Balance**

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the cooperative agreement and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and \$3,476,485 of revenue earned may be made.

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(Continued)

The Asia Foundation  
Notes to the Special Purpose Financial Statement  
Cooperative Agreement No. AID-306-A-14-00008-00  
For the Period October 1, 2019, through September 30, 2020

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**Note 7. Currency**

All amounts presented are shown in U.S. dollars.

**Note 8. Subrecipients**

The list of subrecipients and the amount received by each of them during the audit period is as follows:

Subrecipient Number	Name	Amount of Federal Funds Disbursed in FY 2020
31828.190.001	[REDACTED]	\$ 518
31828.600.002	[REDACTED]	2,486
31828.600.154	[REDACTED]	89,806
31828.600.155	[REDACTED]	114,296
<b>Total Amount of Federal Funds Disbursed</b>		<b>\$ 207,106</b>

**Note 9. Program Status**

The SEA II program remains active. The period of performance for the cooperative agreement is scheduled to conclude on September 30, 2021 as noted in Modification 15 dated August 12, 2020.

**Note 10. Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the period, October 1, 2019 thru September 30, 2020 covered by the Statement. Management has performed their analysis through April 23, 2021.

**Note 11. Program Income**

Program income was not earned under the SEA II program during the period October 1, 2019 through September 30, 2020.

## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Trustees and Management of The Asia Foundation  
465 California Street, 9<sup>th</sup> Floor  
San Francisco, CA 94104

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 (the "Statement") of The Asia Foundation ("TAF"), and related notes to the Statement, with respect to the Strengthening Education in Afghanistan program funded by the United States Agency for International Development ("USAID") cooperative agreement No. AID-306-A-14-00008-00 for the period October 1, 2019, through, September 30, 2020. We have issued our report thereon dated April 23, 2021.

**Internal Control over Financial Reporting**

The Asia Foundation's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the cooperative agreement; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of accounting and presentation described in Notes 1, 2, 4, 5, and 6 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement, we considered The Asia Foundation's internal controls over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of The Asia Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of The Asia Foundation's internal control.

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(Continued)

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. 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 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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2020-02, 2020-04, 2020-05, and 2020-06 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2020-01, 2020-03, and 2020-07 to be significant deficiencies.

### **The Asia Foundation's Response to the Findings**

The Asia Foundation's response to the findings identified in our audit are described in Appendix A to our report. The Asia Foundation's response to the findings was not subject to the auditing procedures applied in the audit of the 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

### **Restriction on Use**

This report is intended for the information of The Asia Foundation, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

  
Crowe LLP

April 23, 2021  
Washington, D.C.

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Trustees and Management of The Asia Foundation  
465 California Street, 9<sup>th</sup> Floor  
San Francisco, CA 94104

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 (the "Statement") of The Asia Foundation ("TAF"), and related notes to the Statement, with respect to the Strengthening Education in Afghanistan program funded by the United States Agency for International Development ("USAID") cooperative agreement No. AID-306-A-14-00008-00 for the period October 1, 2019, through September 30, 2020. We have issued our report thereon dated April 23, 2021.

**Management's Responsibility for Compliance**

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement is the responsibility of the management of The Asia Foundation.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether TAF's Financial Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the financial statement. 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 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 2020-02, 2020-03, and 2020-07.

**The Asia Foundation's Response to the Findings**

The Asia Foundation's response to the findings identified in our audit are described in Appendix A to our report. The Asia Foundation's response to the findings was not subject to the auditing procedures applied in the audit of the Statement and, accordingly, we express no opinion on it.

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(Continued)

## **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 compliance. Accordingly, this communication is not suitable for any other purpose.

## **Restriction on Use**

This report is intended for the information of The Asia Foundation, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

  
Crowe LLP

April 23, 2021  
Washington, D.C.

**FINDING 2020-01: Inadequate Micro-Purchase Procurement Procedures**

Significant Deficiency in Internal Control

**Condition:** TAF's Country Office Procurement Policy establishes a micro-purchase threshold of \$500 where purchases can be processed through a single quotation. Additionally, TAF's Global Procurement Policy defines micro-purchases as procurement of supplies or services in an aggregate amount that does not exceed \$10,000. TAF's procurement population consisted of 26 procurements, 12 (46%) of which were micro-purchases. Through review of TAF's written procurement procedures, we noted that the procedures do not specify the method management uses to ensure micro-purchases are equitably distributed amongst vendors and do not exceed TAF's micro-purchase threshold in the aggregate.

**Criteria:** Pursuant to 2 CFR Part 200.303(a), *Internal Controls*, TAF is required to "Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award..."

2 CFR Part 200.320(a), *Methods of procurement to be followed*, states in part: Procurement by micro-purchase is "the acquisition of supplies or services, the aggregate dollar amount of which does not exceed the micro-purchase threshold (§200.67 Micro-purchase). To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers...Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable."

TAF's *Country Office Procurement Policy* establishes a micro-purchase threshold of \$500 for which a minimum of one written quote is required.

TAF's *Home Office Procurement Policy* defines micro-purchases as "Procurement of supplies or services in an aggregate amount that does not exceed \$10,000. This procurement method can take place without soliciting competitive quotations, haven takin [sic] into account the quality, price, and availability/delivery time. To the maximum extent practicable, the Foundation should distribute micro-purchases equitably amongst qualified suppliers."

**Questioned Costs:** None. Finding relates to a lack of procedures. We did not identify micro-purchases that would result in questioned costs.

**Effect:** In the absence of a formal policy or procedure pertaining to micro-purchases, the likelihood that TAF will distribute micro-purchases to vendors in an unequitable manner or purchase goods and services through micro-purchases that exceed the aggregation threshold is increased.

**Cause:** TAF did not consider it necessary to document its procedure regarding equitable distribution.

**Recommendation:** We recommend that TAF:

1. Develop, document, and implement a policy or procedure regarding the equitable distribution of micro-purchases and that incorporates monitoring of micro-purchases for compliance with the Uniform Guidance;
2. Provide training to staff regarding the implementation of the policy or procedure; and
3. Complete an analysis of micro-purchases for equitable distribution and compliance with TAF's Country and Home Office Procurement policies for USAID.

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(Continued)

**FINDING 2020-02: Incomplete Reporting of Subaward Activity to the Federal Government**

Material Weakness and Noncompliance

**Condition:** Crowe identified two instances where TAF did not report subaward actions obligating \$25,000 or more in Federal funds to [www.fsrs.gov](http://www.fsrs.gov). The subaward agreement with the [REDACTED] was originally funded up to \$399,284. The subsequent subaward activities that were not reported to the Federal government are detailed below:

- [REDACTED] Amendment 5, dated March 28, 2018, obligates an additional AFN<sup>1</sup> 5,274,000 (approximately \$75,758) in funding; and
- [REDACTED] Amendment 8, dated October 18, 2018, obligates an additional AFN 41,434,444 (approximately \$543,241) in funding.

**Criteria:** Pursuant to Standard Provision Reporting Subawards and Executive Compensation (October 2010) appearing in Section II. of Attachment C – Standard Provisions to the cooperative agreement, TAF is required to “report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds for a subaward to an entity.” TAF is required to report each obligating action described above to [www.fsrs.gov](http://www.fsrs.gov) ([www.usaspending.gov](http://www.usaspending.gov)) “no later than the end of the month following the month in which the obligation was made.”

**Questioned Costs:** None. TAF did not report the cited subaward activities to the Federal government; however, the subaward activities were allowable. As a result, no costs are at question.

**Effect:** USAID may not be aware of subaward actions that require monitoring. In addition, the Government’s objective of providing transparency into subawards made with Federal funding may not be met due to omissions in reporting.

**Cause:** TAF’s *Making Subawards Guide* (Revised September 2015) does not establish procedures regarding the reporting of subaward actions obligating \$25,000 or more in Federal funds.

**Recommendation:** Crowe recommends that TAF:

1. Report both subaward actions detailed above to the Federal government via [www.fsrs.gov](http://www.fsrs.gov);
2. Provide additional training to its employees on Federal requirements for reporting subaward activities; and
3. Revise its *Making Subawards Guide* to include procedures addressing the requirements of the Reporting Subawards and Executive Compensation standard provision (i.e., reporting of subaward actions obligating \$25,000 or more in Federal funds to [www.fsrs.gov](http://www.fsrs.gov)).

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<sup>1</sup> AFN or Afghanis is the official currency of Afghanistan.



**FINDING 2020-03: Failure to Include the Sub-Award Requirements Standard Provision**

Significant Deficiency and Noncompliance

**Condition:** We reviewed all four subawards issued by TAF under the SEA II program for testing. During testing, we identified three subaward agreements where TAF did not include Standard Provision Sub-Award Requirements (March 2012) within the agreement with the subrecipients as required by the cooperative agreement. The noted subrecipients and the subaward values are as follows<sup>2</sup>:

- The [REDACTED] agreement dated July 3, 2017, funded up to AFN 7,557,310 (approximately \$109,994);
- The [REDACTED] [REDACTED] (sample 3) agreement dated August 27, 2019, funded up to AFN 7,970,850 (approximately \$101,623); and
- The [REDACTED] Educational Complex [REDACTED] (sample 4) agreement dated September 27, 2020, funded up to AFN 14,601,300 (approximately \$189,966).

**Criteria:** Pursuant to *Standard Provision Sub-Award Requirements* (March 2012) appearing in Section II. of Attachment C – Standard Provisions to the cooperative agreement, TAF is required to include the standard provision clause “in all sub-awards and will require sub-awardees to include this clause in all lower-tier sub-awards.”

In accordance with section Subaward Terms and Conditions of TAF’s *Making Subawards Guide* (Revised September 2015), “There are donor terms and conditions in the award that also apply to TAF subawardees. Those terms and conditions must be incorporated in the subagreement in the form of “flow downs”. The project management team is responsible for reviewing the award agreement and identifying the applicable flow downs.”

**Questioned Costs:** None. TAF did not include all required Standard Provisions in the noted subaward agreements; however, the subaward activities were allowable. As a result, no costs are at question.

**Effect:** Subawards issued by TAF are at an increased risk of noncompliance with agreement provisions. Government funds may not be administered appropriately.

**Cause:** TAF’s project management team did not incorporate subaward terms and condition procedures into its subawards as described in section Subaward Terms and Conditions of the *Making Subawards Guide*.

**Recommendation:** Crowe recommends that TAF:

1. Modify each subaward agreement to include the applicable standard provisions; and
2. Provide additional training to its staff responsible for reviewing award agreements to ensure compliance with subaward flow down requirements.

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<sup>2</sup> US Dollar equivalents estimated using the translation rates from OANDA from the date of the subaward.

**FINDING 2020-04: Inadequate Process for the Review and Approval of the Notes to the SPFS**

Material Weakness in Internal Control

**Condition:** During review of the notes to the Special Purpose Financial Statements (“SPFS”), we noted the following:

- Note 2. *Basis of Accounting* originally indicated that the basis of accounting used to prepare the SPFS was cash. However, upon review, the basis of accounting used was accrual.
- Note 3. *Foreign Currency Conversion Method* related to foreign currency conversion indicated that conversion from a foreign currency was not needed in preparing the SPFS. Based on our testing, we noted transactions were denominated in a foreign currency and required conversion from AFN to USD.
- Note 5. *Costs Incurred by Budget Category* related to the budget indicated that the budgeted categories and amounts presented were in alignment with Modification 15 to the award. However, based on review, we noted that the categories included did not align with those indicated in Modification 15 to the award.
- Note 8 *Subrecipients* to TAF's SPFS included an original subaward population that included 148 subrecipients for a total dollar value of \$456,961, which is material to the SPFS. Based upon review and discussion with TAF, 144 of the subrecipients were deemed by TAF to be beneficiaries. TAF subsequently removed the beneficiaries from their note disclosure.

Based on the requested changes to the notes, we determined that TAF's review and approval process for the SPFS and corresponding Notes was inadequate. However, TAF concurred with the recommended revisions such that the notes to the SPFS are considered to be fairly presented.

**Criteria:** TAF's Code of Ethics, which must be reviewed and signed by all staff and employees, requires that TAF “report clearly and accurately to donors and other interested persons on the activities of the Foundation as required.”

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control – Integrated Framework, states, “Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.”

**Questioned Costs:** N/A. This finding relates to note disclosures to the SPFS and not specific costs. No costs are at question as unallowable costs were not identified as a component of this finding.

**Effect:** The Government may not be receiving accurate financial information related to the program under audit. Additionally, errors and omissions in notes may adversely impact USAID's understanding of the financial position of the award

**Cause:** TAF's financial reporting process does not include requirements for the review of supporting reports and note disclosures in financial statements for alignment with applicable requirements.

**Recommendation:** Crowe also recommends that TAF:

1. Revise the financial reporting process to incorporate an appropriate review of financial records supporting reports and note disclosures for alignment with applicable requirements; and
2. Provide training on the revised procedures to the appropriate personnel.

**FINDING 2020-05: Inadequate Monitoring Process Over Subrecipient Audit Requirements**

Material Weakness in Internal Control

**Condition:** We reviewed TAF's Subawards Policy and determined that it does not establish adequate procedures to identify when a subrecipient is required to be audited and, therefore, to submit an audit report to TAF.

TAF maintains a Subrecipient Summary Report (PJ 130), which is used to track life of program financial information of all subrecipients, including amount awarded, spend to date, balance of obligations, and amounts to be paid to subrecipients in the following fiscal year. Management periodically reviews subrecipients' financial data included in the PJ 130 to track expenditures incurred by the subrecipient, however, the report does not include each recipients' total Federal expenditures (inclusive of awards with other entities) incurred within each subrecipient's fiscal year to determine when an audit is required.

**Criteria:** Pursuant to 2 CFR Part 200.303(a), *Internal Controls*, TAF is required to "Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award..."

Pursuant to 2 CFR Part 200.501, *Audit Requirements*, TAF must ensure that:

"(a) *Audit required.* A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part.

(b) *Single audit.* A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single audit conducted in accordance with §200.514 except when it elects to have a program-specific audit conducted in accordance with paragraph (c) of this section..."

Pursuant to ADS 591.3.2.1 Foreign Organizations, "(a) Foreign nonprofit organizations, host governments, and subrecipients that expend \$750,000 or more in USAID awards (i.e., organizations that receive USAID funds either directly or through a prime contractor or recipient) during their fiscal year, must have an annual audit conducted of those funds in accordance with 2 CFR Part 200, Subpart F. (b) Foreign recipients must adhere to the ADS 303mab, USAID Standard Provisions for Non-U.S. Nongovernmental Grantees, which notifies recipients' of their responsibility to monitor their subrecipients. Therefore, a foreign prime recipient must impose the 2 CFR Part 200, Subpart F on their non-U.S. subrecipients. A foreign recipient's U.S. nonprofit subrecipients are covered by the requirements of 2 CFR Part 200, Subpart F but the prime recipient must still monitor these subrecipients..."

Section Subaward Management Process of TAF's Making Subawards Guide requires management to "monitor subaward activities and report submission" as well as to "conduct financial review and perform site visits as necessary", however, the procedure does not establish a process to identify when a subrecipient is/is not subject to an audit requirement and/or has triggered an audit requirement.

**Questioned Costs:** None. This finding relates to the triggering of an audit requirement and not costs incurred under the award. No costs are at question as unallowable costs were not identified as a component of this finding.

**Effect:** Should subawardees or contractors may not have audits conducted when required, TAF may be unaware of errors and issues that impact federal awards.

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(Continued)

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Section I: Schedule of Findings and Questioned Costs  
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**Cause:** TAF's *Making Subawards Guide* was not properly designed to include monitoring procedures over a subawardee's expenditures during the post-award phase to ensure that awardees are meeting their federal requirements related to audits.

**Recommendation:** Crowe recommends that TAF:

1. Revise its Subawards Policy to include procedures that address the identification of when subrecipients is/is not subject to an audit and/or has triggered an audit requirement; and
2. Provide training to staff on the implementation of the updated procedures in management's Subawards Policy.

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(Continued)

**FINDING 2020-06: Inaccurate Reporting of Unliquidated Obligations to the Federal Government**

Material Weakness in Internal Control

**Condition:** Crowe reviewed each (4 total) of TAF's quarterly Federal Financial Reports ("FFR") submitted to the United States Government ("USG") during the period under audit and noted that management reported a \$0 balance of unliquidated obligations. Crowe determined that TAF's subrecipients had unexpended balances as of the end of each FFR period. TAF identified within the reports that the FFR's are on the accrual basis. Therefore, there were unliquidated obligations as of the date of those reports.

**Criteria:** 2 CFR Part 200.302(b), *Financial Management*, requires that financial systems for non-Federal entities must provide for the following:

- 1) "Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the CFDA title and number, Federal award identification number and year, name of the Federal agency, and name of the passthrough entity, if any.
- 2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §200.327 Financial reporting and 200.328 Monitoring and reporting program performance. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a subrecipient to establish an accrual accounting system and must allow the subrecipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.
- 3) Records that identify adequately the source and application of funds for federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
- 4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See §200.303 Internal controls.
- 5) Comparison of expenditures with budget amounts for each Federal award.
- 6) Written procedures to implement the requirements of §200.305 Payment.
- 7) Written procedures for determining the allowability of costs in accordance with Subpart E—Cost Principles of this part and the terms and conditions of the Federal award."

2 CFR Part 200.97, *Unliquidated obligations*, details that, "for financial reports prepared on a cash basis, obligations incurred by the nonfederal entity that have not been paid (liquidated). For reports prepared on an accrual expenditure basis, these are obligations incurred by the non-Federal entity for which an expenditure has not been recorded."

TAF's Code of Ethics requires that management "report clearly and accurately to donors and other interested persons on the activities of the Foundation as required."

TAF's project management procedures state that for Financial Management, "The Foundation's financial management is centralized at HQ level. Finance and the Program Finance directly manage 1) setting up projects in the system 2) processing of transaction executed by AG office (in the centralized financial system, i.e. CostPoint) 3) Preparation and finalization of monthly financial reports (system generated).

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While preparing periodic financial reports to the donors (SF 425 in case of USAID funded projects), TAF/Afghanistan office and the Program Finance Unit of San Francisco) minutely review all costs reported to donors and take necessary action whenever warranted.”

**Questioned Costs:** None. This finding relates to the reporting of unpaid costs, specifically unliquidated obligations, to the government. We did not identify any costs that would be deemed unallowable during our procedures.

**Effect:** Financial Information provided to the USG may be inaccurate. Errors and omissions in the FFRs may adversely impact USAID’s understanding of the financial position of the award

**Cause:** TAF’s preparation of the FFR did not include unliquidated obligations, and the TAF Afghanistan office and Program Finance Unit of San Francisco’s failed to ensure that these obligations were included when reviewing the FFR prior to submission.

**Recommendation:** Crowe recommends that TAF:

1. Provide additional training on Federal financial reporting to its management and employees; and
2. Calculate what the applicable unliquidated obligation values are for each identified FFR and communicate those values to USAID.

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(Continued)

**FINDING 2020-07: Subaward Agreements Missing Required Data Elements**

Significant Deficiency and Noncompliance

**Condition:** Crowe tested all four subawards with costs incurred under the SEA II program during our audit period. During testing, Crowe noted that for each of the subawards tested, TAF did not include the following subaward data elements as required by 2 CFR 200.331: b) CFDA program name; c) Federal award date; and d) identification of the agreement as a subaward. The subaward agreements in question follow:

- The [REDACTED] grant agreement, dated June 21, 2016, originally funded up to \$399,284. The final modification to the agreement, modification 8, dated October 19, 2018, increased the cumulative budget for the award to AFN 195,147,664 (\$2,550,760 per OANDA).
- The [REDACTED] agreement dated July 3, 2017, funded up to AFN 7,557,310 (\$109,994 per OANDA);
- The [REDACTED] ([REDACTED] sample 3) agreement dated August 27, 2019, funded up to AFN 7,970,850 (\$101,623 per OANDA);
- The [REDACTED] ([REDACTED] sample 4) agreement dated September 27, 2020, funded up to AFN 14,601,300 (\$189,968 per OANDA).

In addition, we noted that for one subaward ([REDACTED]), TAF included both the pre-UG Special Provision flow down requirements along with the appropriate, current flow down Standard Provisions for Non-US Nongovernmental Organizations thus incorporating conflicting requirements for subgrantees.

**Criteria:** 2 CFR Part 200.331(a)(1), *Requirements for pass-through entities*, requires subaward agreements to include the following data elements:

“Federal Award Identification.

- (i) Subrecipient name (which must match registered name in DUNS);
- (ii) Subrecipient’s DUNS number (see §200.32 Data Universal Numbering System (DUNS) number);
- (iii) Federal Award Identification Number (FAIN);
- (iv) Federal Award Date (see §200.39 Federal award date);
- (v) Subaward Period of Performance Start and End Date;
- (vi) Amount of Federal Funds Obligated by this action;
- (vii) Total Amount of Federal Funds Obligated to the subrecipient;
- (viii) Total Amount of the Federal Award;
- (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA);
- (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official,
- (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement;
- (xii) Identification of whether the award is R&D; and
- (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per §200.414 Indirect (F&A) costs).”

**Questioned Costs:** None. TAF did not include all required data elements in the mentioned subaward agreements, however, the subaward activities were allowable. As a result, no costs are at question.

**Effect:** Awards entered into by TAF may not contain all applicable compliance requirements, putting USG funds at risk for misuse.

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(Continued)

The Asia Foundation  
Section I: Schedule of Findings and Questioned Costs  
Cooperative Agreement NO. AID-306-A-14-00008-00  
For the Period October 1, 2019, through September 30, 2020

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**Cause:** TAF's *Making Subawards Guide (Revised September 2015)* does not communicate the required subaward agreement data elements to be included in subawards as prescribed in 2 CFR 200.331, *Requirements for pass-through entities*.

**Recommendation:** Crowe recommends that TAF:

1. Update its Subawards Policy to include the required data elements for subawards as per 2 CFR 200.331; and
2. Provide training to staff to ensure an understanding of the required data elements of subawards as per 2 CFR 200.331.



The Asia Foundation  
Section II: Summary Schedule of Prior Audit, Review, and Assessment Findings  
Cooperative Agreement NO. AID-306-A-14-00008-00  
For the Period October 1, 2019, through September 30, 2020

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Crowe also requested copies of prior audits, reviews, and evaluations pertinent to The Asia Foundation (“TAF”) activities under the cooperative agreement. Crowe reviewed a total of seven prior audit reports, five of which contained twenty (20) findings and recommendations. We assessed the findings and determined that two of the findings could have a potential direct or material impact on the SPFS and other significant financial data significant to the audit objectives. We reviewed TAF corrective action and concluded that the two findings were addressed adequately. The report containing the findings is listed below:

- Financial Audit of costs incurred of the USAID resources managed by The Asia Foundation (TAF) under USAID’s AUAF-Financial and Business Management Activity (AUAF-FBMA) program, Contract No. AID-306-C-17-00014 for the period July 5, 2017 to September 30, 2018 and Survey of the Afghanistan People (SAP) program, Grant No. AID-306-G-12-00003 for the period April 1, 2018 to September 30, 2018 and Strengthening Education in Afghanistan II (SEA II) program, Cooperative Agreement No. AID-306-A-14-00008 for the period October 1, 2017 to September 30, 2018.

We have summarized the results of our procedures below:

**Finding No. 1 Salaries Exceeded NTA Scale**

Report: Financial Audit of costs incurred of the USAID resources managed by The Asia Foundation (TAF) under USAID’s AUAF-Financial and Business Management Activity (AUAF-FBMA) program, Contract No. AID-306-C-17-00014 for the period July 5, 2017 to September 30, 2018 and Survey of the Afghanistan People (SAP) program, Grant No. AID-306-G-12-00003 for the period April 1, 2018 to September 30, 2018 and Strengthening Education in Afghanistan II (SEA II) program, Cooperative Agreement No. AID-306-A-14-00008 for the period October 1, 2017 to September 30, 2018.

Issue: CliftonLarsonAllen LLP identified three instances where TAF did not comply with the required compensation limit established for Cooperating Country National (“CCN”) employees by the NTA salary scale guideline under the SEA II program.

Status: Based on a review by the USAID Contracting Officer, the finding was invalidated overall such that no corrective action was required. Per USAID’s memorandum dated November 25, 2020, titled *Management Decision for Financial Audit of Costs Incurred managed by The Asia Foundation under AUAF-Financial and Business Management Activity (AUAF-FBMA) program, Aid-306-C-17-00014, for the period July 5, 2017 to September 30, 2018; Survey of the Afghanistan people (SAP) program, Aid-306-G-12-00003, for the period April 1, 2018 to September 30, 2018; Strengthening Education in Afghanistan II (SEA II) program, Aid-306-A-14-00008 for the period October 1, 2017 to September 30, 2018; (Audit Report No 8- 306-20-037-N)*, the Contracting Officer (CO) has subsequently reviewed the information provided in the audit report and TAF’s responses to the auditor’s report. It was the CO’s final determination that as the subject award is a grant and the U.S. Government cannot require a grantee to adhere to the NTA salary guidelines, TAF is not required to adhere to the Government of the Islamic Republic of Afghanistan (GIROA) requirement of using the NTA salary scale. Consequently, the CO has determined that the \$36,975 in questioned costs were allowable. As such, Crowe determined that the finding has been adequately remediated.

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(Continued)

**Finding No. 2 Noncompliance with Vetting Requirements**

**Report:** Financial Audit of costs incurred of the USAID resources managed by The Asia Foundation (TAF) under USAID's AUAF-Financial and Business Management Activity (AUAF-FBMA) program, Contract No. AID-306-C-17-00014 for the period July 5, 2017 to September 30, 2018 *and* Survey of the Afghanistan People (SAP) program, Grant No. AID-306-G-12-00003 for the period April 1, 2018 to September 30, 2018 *and* Strengthening Education in Afghanistan II (SEA II) program, Cooperative Agreement No. AID-306-A-14-00008 for the period October 1, 2017 to September 30, 2018.

**Issue:** TAF issued a Blanket Purchase Agreement for the purchase of fuel supply without obtaining the required USAID vetting approval. TAF continued purchasing goods from the vendor until the contract was terminated by TAF in 2018. As a result, all costs charged to USAID for the vendor were questioned, resulting in total questioned costs of \$17,325.

**Status:** Per USAID's memorandum dated November 25, 2020, titled *Management Decision for Financial Audit of Costs Incurred managed by The Asia Foundation under AUAF-Financial and Business Management Activity (AUAF-FBMA) program, Aid-306-C-17-00014, for the period July 5, 2017 to September 30, 2018; Survey of the Afghanistan people (SAP) program, Aid-306-G-12-00003, for the period April 1, 2018 to September 30, 2018; Strengthening Education in Afghanistan II (SEA II) program, Aid-306-A-14-00008 for the period October 1, 2017 to September 30, 2018; (Audit Report No 8- 306-20-037-N)*, TAF was issued a Bill for Collection for the total questioned costs amounting to \$17,325. TAF provided documentation showing that the payment was remitted on December 30, 2020. Additionally, the auditor recommended that TAF "Ensure that vendors/sub-awardees are properly vetted and that vetting approval is obtained from USAID before finalizing any vendor contract/sub-award and commencing work with the concerned vendors/sub-awardee." As part of our procedures, we reviewed one subaward to a vendor exceeding the \$25,000 threshold and four (4) awards to subrecipients and noted that each subaward was properly vetted and approved prior to commencing work with the concerned vendors/sub-awardee. As such, we deemed that TAF has taken adequate corrective action, and USAID has determined the finding to be resolved.

## Appendix A: Views of Responsible Officials

The Asia Foundation provided the following response to Crowe via email on February 11, 2020, regarding the findings contained in the draft report. The response has been included herein verbatim and source formatting retained.

### **FINDING 2020-01: Inadequate Micro-Purchase Procurement Procedures**

**Management Response:** Partially agreed.

In addition to our earlier submission on Micro Purchase Procedures (Ref: attached “Petty Procurements – Equal Opportunity Writeup.docx”), we would take this opportunity to add following clarification based on TAF’s procurement policy based on 2 CFR 200.320 guidelines:

*Preferred Contractors and Future Purchases with Same Contractor (Commonly needed goods and services) – Through a competitive selection process, TAF will identify preferred contractors of commonly needed goods and services. Once qualified as preferred contractors, these contractors can be engaged in the procurement of commonly needed goods and services of up to \$25,000 per transaction for a period of three years.*

*Future Purchases with Same Contractor: A contractor that has been engaged and selected through a competitive process in the past 12 months can be used to provide similar goods and services, in case of repeat order, i.e. a requirement to procure similar goods and services previously provided by a particular contractor within the last 12 months. The decision to procure from a contractor must be based on unexpected circumstances that solicitation of additional bids or quotations would seriously delay project implementation e.g. sudden change in program strategies, etc.*

*Similarly, the Foundation can renew/continue an existing service agreement (i.e. lease, insurance, ISP, etc.) that was properly executed within the past 36 months and there is no significant increase in prices or onerous changes in the contract terms and conditions that is detrimental to the Foundation’s interests such as those requiring TAF to assume contractor’s liabilities with third parties e.g. delinquent taxes.*

### **FINDING 2020-02: Incomplete Reporting of Subaward Activity to the Federal Government**

**Management Response:** Agreed.

TAF does have established process to report all new subawards exceeding \$25,000, and we have submitted several TAF reports (PL 130, PJ 322 etc) and FFATA reports confirming uploads of all new subawards. Admittedly, TAF missed timely reporting of amendments involving incremental obligations. We have, since, revisited our procedures to ensure that all applicable amendments are also uploaded under FFATA portal.

During the audit process, we had submitted the Subaward Policy of 2015, since majority of subrecipients during the audit period were engaged in prior FY. We have since, updated the Subaward policy, and attached is March 2021 version of the same, which adequately addresses to the requirement of reporting additional obligations as well (please refer to TAF Subawards Policy – Revised Mar 2021.docx).

### **FINDING 2020-03: Failure to Include the Sub-Award Requirements Standard Provision**

**Management Response:** Disagree.

As a US-based organization, TAF flow downs the applicable clauses in the award and the Standard Provisions for non-US non-government organizations as per applicability clause in ADS 303. However, considering the design of these subgrants that include no further subawards (2<sup>nd</sup> tier) and that subaward requirement (RAA7 Subawards) is a required as applicable clause in the Standard Provisions for non-US

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NGOs, clause **A.19.19 Sub-Award Requirements (March 2012)** is deemed inapplicable for these three subawards.

Attached is the standard template of subaward terms and conditions applied by TAF for all subawards without 2<sup>nd</sup> tier awardees (ref: Standard Provision for Non-US Nongovernmental Organizations.pdf).

**FINDING 2020-04: Inadequate Process for the Review and Approval of the Notes to the SPFS**

**Management Response:** Disagree.

With due respect to the audit observation on the SPFS [*sic*] review process, we take this opportunity to reiterate the fact that contents and language of SPFS [*sic*] varies between one audit to another. As and when we receive responses (feedbacks) on the SPFS [*sic*], we do proceed with changes as long as these changes are not contrary to the actual process and policies.

During the audit, following changes were made to SPSF:

- “Revenues and expenditures reported on the Statement are reported on cash basis of accounting and, therefore, are reported on the modified accrual basis of accounting and in accordance with generally accepted accounting principles” was modified to “Revenues and expenditures reported on the Statement are reported on modified accrual basis of accounting”.

TAF’s accounting basis, in general, is cash based, and the accruals included in the Special Purpose Financial Statement (electricity bill for Sep 2020, Telephone bill for Sep 2020) are expenses related to FY 20, paid between Oct 1, 2020 to Oct 15, 2020. Given the delay in acquiring the invoices from the vendors, these payments were recorded late in the financial books and reported as FY 20 expenses. TAF does not accrue expenses wherein no payments were actually made by time of FY closeout (the FY books are formally closed around end of second week of October). In addition, these accruals are allowed only for recurring expenses and subrecipient payments, though processed within two weeks of subsequent FY, do not qualify for accrual. By virtue of this, we confirm that these accruals are indeed actual payments with cash released by the time of reporting the FFR to USAID.

- “The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement No. 306-A-14-00008 for the Strengthening Education in Afghanistan II (SEA II) for the period May 19, 2014 through September 30, 2021 with specific audit review for the period mentioned above” was modified to “The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement No. 306-A-14-00008 for the Strengthening Education in Afghanistan II (SEA II) for the period October 1, 2019 through September 30, 2020 with specific audit review for the period mentioned above.

Under basis of presentation, the period covered has always been subject to different views by different auditors. As a matter of fact, the previous audit of the same USAID award, conducted by CROWE in 2018 (004.2.31828 USAID Audit Oct 1, 2015 – Sep 30, 2017.pdf) has the following language in terms of the basis:

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**NOTE 1. BASIS OF PRESENTATION**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement No. 306-A-14-00008 for the Strengthening Education in Afghanistan II project (SEA II) within the period May 19, 2014 through September 30, 2020. The specific period covered by the Statement is October 1, 2015 through September 30, 2017.

- Under section 9 (subrecipients) a total of 155 subrecipients were listed. These were in accordance to the subrecipients under TAF's project report PJ 130. Under previous audits, the auditors were keen to ensure that in the Notes the list of subrecipients (together with cost incurred under each subrecipient) agrees with the PJ 130 details.

During the audit process, TAF agreed that the list of PJ 130 includes both subrecipient and program beneficiaries (the scholarship grantees). Accordingly, the beneficiaries were removed from the list and only the subrecipient with assistance awards were retained. This adjustment, represents the mutual agreement in terms of reporting subrecipients, and not necessarily entail to TAF's lack of understanding in terms of identifying subrecipients vis-à-vis beneficiaries.

Based on above, we strongly feel that the changes in the notes were the outcome of auditor's proposed changes and TAF's acceptance to the same, and not because of any weakness in TAF's process of preparation and review of the notes.

**FINDING 2020-05: Inadequate Monitoring Process Over Subrecipient Audit Requirements**

**Management Response:** Disagree.

TAF has an established financial monitoring and audit procedures compliant with section E of 2 CFR 200 (please refer to attached "Financial Monitoring and Audit.docx"). Aside from the Subaward Making Guide (pre-award to awarding phase), we have several policy guides covering post award procedures such as monitoring and training. Also, our financial review form which is appended in the audit guidelines requires reviewer to confirm subrecipient's compliance with audit requirements which means they need to verify if total expenditures meet the audit threshold. While we refer to PJ reports to determine high value subrecipients, we still rely on the subrecipients' financial reports to determine their total USG expenditures during the fiscal year being reviewed.

The revised TAF Subawards Policy (as referenced under finding 2 above) addresses to the audit requirement.

It would also be worth mentioning that in Afghanistan, majority of the grantees have single donor funding, which eases the process of documenting the audit requirement.

**FINDING 2020-06: Inaccurate Reporting of Unliquidated Obligations to the Federal Government****Management Response:** Disagree.

It is not typical for the Grants Payable to negative. This means that TAF has overspent the initial obligation. This is simply an admin issue, but it is usually cleared via our automated PJ-660 process, wherein:

- Program Finance Unit, TAF/HQ (PFG) sends report to Field Offices (FO) every month that shows expired subgrants 60 days after end date
- FO is responsible to respond whether or not to keep open, update, or close subgrant

Alternatively, FO can also submit a TAF280 (the form used for registration of subawards, and capture the amendments as well) and manually request to extend, add/subtract obligation, and/or close out subawards.

The above proves we have controls in place. As it may be noted "Grants Payable" amount is net of **all** our subs so that lump sum amount continuously changes as expenditures are incurred. TAF/HQ typically cleans up project administration on a quarterly basis due to sheer volume of awards and small unit of HQ based PFG team.

The net amount of grant payable, started as negative amount in mid-of FY19, and hence zero amount was reported after then. We have provided copies of FFRs for earlier periods of FY19, substantiating that unobligated obligations under active subawards were reported in the FFR as long as the net amount was not negative owing to administrative clearance on obligations and de-obligations in the system.

**FINDING 2020-07: Subaward Agreements Missing Required Data Elements****Management Response:** Disagree.

Kindly refer to "TAF Subawards Policy – revised Mar 2021" referenced under finding # 2 and # 5 above. This version clearly warrants proper identification of subawards (see below excerpt). For each subawards, we provide the available award information as required in the federal regulations. While mentioning of total federal award amount is not provided in the award agreement with the sub awardee, we believe that the data elements provided are sufficient enough to identify our subawards to the relevant federal award.

All subawards must be identified to the subrecipient and sub-agreements must contain the applicable flow downs and indicate the required award information<sup>5</sup>. USG funded subawards must also include the CFDA number and the entity's DUNS number (as applicable) in addition to the basic award information.

## Appendix B: Auditor's Rebuttal

Crowe LLP ("Crowe" or "we" or "us") has reviewed the management responses of The Asia Foundation ("TAF" or "the auditee") responses to the draft report audit findings provided to Crowe on April 23, 2021. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. Crowe incorporates a rebuttal in those instances where management disagrees with the facts presented within the condition, does not concur with Crowe's recommendation, or provides additional documentation for review. In those instances where management either agrees with the finding or does not disagree with the facts in the finding, as presented, no rebuttal is provided. Using this framework, Crowe has incorporated six rebuttals to management's comments, below.

### **FINDING 2020-01: Inadequate Micro-Purchase Procurement Procedures**

TAF partially agreed with the finding and provided additional clarification on their procurement practices related to selection of vendors. TAF did not provide additional procedures for review that detail how the equitable and fair distribution of micro-purchases is accomplished. In consideration of these matters and management not having provided documentation that may serve as sufficient, appropriate audit evidence to clear the reported matters, the finding and its classification have not been changed.

### **FINDING 2020-03: Failure to Include the Sub-Award Requirements Standard Provision**

TAF disagreed with the finding and stated that the clause **A.19.19 Sub-Award Requirements (March 2012)** was deemed inapplicable per applicability clause in ADS 303 for the three subawards identified in the finding due to the design of the subgrants to not include further subawards. We have reviewed management's response and noted that the response did not alter the fact that according to the *Standard Provision Sub-Award Requirements* (March 2012) appearing in Section II. of Attachment C – Standard Provisions to the cooperative agreement, TAF is required to include the standard provision clause "in all sub-awards and will require sub-awardees to include this clause in all lower-tier sub-awards." In consideration of these matters and management not having provided documentation that may serve as sufficient, appropriate audit evidence to clear the reported matters, the finding has not been changed.

### **FINDING 2020-04: Inadequate Process for the Review and Approval of the Notes to the SPFS**

TAF disagreed with the finding and stated that the contents and the language of the SPFS varies between one audit to another and that the "changes in the notes were the outcome of auditor's proposed changes and TAF's acceptance to the same, and not because of any weakness in TAF's process of preparation and review of the notes." It is TAF's responsibility to provide the SPFS and accompanying notes and it is our responsibility to perform the audit based on the information provided. TAF's initial Note 8 included an original subaward population that included 148 subrecipients for a total dollar value of \$456,961, which is material to the SPFS. Upon review, 144 of the subrecipients were incorrectly classified and should not have been included. Additionally, as indicated in the finding, the basis of accounting initially identified did not align with how the SPFS was produced. In consideration that these matters are of a technical classification error and not just a matter of interpretation, the finding and its classification have not been changed.

### **FINDING 2020-05: Inadequate Monitoring Process Over Subrecipient Audit Requirements**

TAF disagreed with the finding and stated that they have an established financial monitoring and audit procedures compliant with subpart F of 2 CFR 200 and referred us to an "attached Financial Monitoring and Audit.docx". They indicated that their financial review form, which is appended in the audit guidelines, requires reviewer to confirm subrecipient's compliance with audit requirements which means they need to verify if total expenditures meet the audit threshold. TAF provided us with a revised *TAF Subawards Policy* and stated that it "addresses to the audit requirement," but did not provide us with the attached Financial Monitoring and Audit document. We reviewed the revised Subaward Policy and noted that specific audit requirements and how they will be monitored were not addressed. In consideration of these matters and management not having provided documentation that may serve as sufficient, appropriate audit evidence to clear the reported matters, the finding has not been changed.

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**FINDING 2020-06: Inaccurate Reporting of Unliquidated Obligations to the Federal Government**

TAF disagreed with the finding and stated that the account that tracks Grants Payable “is net of all our subs so that lump sum amount continuously changes as expenditures are incurred. The net amount of grant payable, started as negative amount in mid-of FY19, and hence zero amount was reported after then.” According to 2 CFR § 200.97 - *Unliquidated obligations*, Unliquidated obligations means that “for reports prepared on an accrual expenditure basis, these are obligations incurred by the non-Federal entity for which an expenditure has not been recorded. During the course of our procedures, we noted that TAF’s subrecipients had unexpended balances, different than that of the net amount, as of the end of each FFR period, indicating that an unliquidated obligation was present. In consideration of these matters and management not having provided documentation that may serve as sufficient, appropriate audit evidence to clear the reported matters, the finding has not been changed.

**FINDING 2020-07: Subaward Agreements Missing Required Data Elements**

TAF disagreed with the finding and stated that “While mentioning of total federal award amount is not provided in the award agreement with the sub awardee, we believe that the data elements provided are sufficient enough to identify our subawards to the relevant federal award.” As detailed in our finding and agreed to by the aforementioned TAF response, not all required data elements were included in the subaward agreement. In consideration of these matters and management not having provided documentation that may serve as sufficient, appropriate audit evidence to clear the reported matters, the finding has not been changed.



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