

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 23-25 Financial Audit

Department of State's Core Operations in Kabul and the Continuation of Partnerships with Several Historical and Cultural Institutions: Audit of Costs Incurred by the University of Chicago

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



MAY
2023

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On January 25, 2017, the U.S. Department of State (State) awarded a \$2,000,000 cooperative agreement to the University of Chicago (UChicago) to support core operations in Kabul and the continuation of partnerships with the National Museum of Afghanistan and the Afghan Institute of Archeology, in collaboration with the Afghan Ministry of Information and Culture. The principal goal of the agreement was to promote national unity and discourage violent extremism by building people-to-people connections. State modified the agreement six times; the modifications increased the total funding to \$4,525,000 and extended the period of performance from January 31, 2020, through December 31, 2022.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr) reviewed \$3,863,090 in costs charged to the agreement from January 25, 2017, through December 31, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in UChicago'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 UChicago has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of UChicago's Special Purpose Financial Statement (SPFS). See Davis Farr's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, auditing standards require SIGAR to review the work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Davis Farr did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

May 2023

Department of State's Core Operations in Kabul and the Continuation of Partnerships with Several Historical and Cultural Institutions: Audit of Costs Incurred by the University of Chicago

SIGAR 23-25-FA

WHAT SIGAR FOUND

Davis Farr identified one material weakness, one significant deficiency, and two deficiencies in UChicago's internal controls. The auditors also identified four instances of noncompliance with the terms of the agreement. For example, the auditors tested 106 transactions and determined that UChicago provided insufficient documentation for housing and vehicle rentals, food purchases, and other expenses. In addition, the auditors determined that the university did not provide competitive bidding documentation or sole source justification and approval from State for its three major subcontractors, as required. In another example, the auditors tested 109 payments made to 22 vendors to determine whether UChicago performed an exclusion or anti-terrorist check, but the university did not provide any documentation showing that it completed the required checks. The auditors took an additional step and independently performed exclusion or anti-terrorist checks of the vendors in question and did not identify their names on the lists. SIGAR notified UChicago of these deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and instances of noncompliance, Davis Farr identified \$632,866 in total questioned costs consisting entirely of unsupported costs—costs not supported with adequate documentation or that do not have required prior approval. Davis Farr did not identify any ineligible costs—costs prohibited by the agreement and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Supplies	\$0	\$39,363	\$39,363
Contractual	\$0	\$25,607	\$25,607
Other Direct Costs	\$0	\$437,305	437,305
Indirect Costs	\$0	\$130,591	\$130,591
Total Costs	\$0	\$632,866	\$632,866

Davis Farr identified four prior audit reports that were relevant to the agreement. One of the four reports contained one finding that could have a material effect on the SPFS or other financial data significant to the audit objectives. Davis Farr conducted follow-up procedures and concluded that the university took adequate corrective action on the finding. Davis Farr issued a qualified opinion on UChicago's SPFS due to the material questioned costs identified.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$632,866 in questioned costs identified in the report.
2. Advise UChicago to address the report's four internal control findings.
3. Advise UChicago to address the report's four noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 23, 2023

The Honorable Antony Blinken
Secretary of State

We contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by the University of Chicago (UChicago) under a cooperative agreement from the U.S. Department of State (State) to support core operations in Kabul and the continuation of partnerships with the National Museum of Afghanistan and the Afghan Institute of Archeology, in collaboration with the Afghan Ministry of Information and Culture.¹ The principal goal of the agreement was to promote national unity and discourage violent extremism by building people-to-people connections. Davis Farr reviewed \$3,863,090 in costs charged to the agreement from January 25, 2017, through December 31, 2021. Our contract with Davis Farr required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$632,866 in questioned costs identified in the report.**
- 2. Advise UChicago to address the report's four internal control findings.**
- 3. Advise UChicago to address the report's four noncompliance findings.**

Davis Farr discusses the results of the audit in detail in the attached report. We reviewed Davis Farr's report and related documentation. We also inquired about Davis Farr's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements 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 UChicago's Special Purpose Financial Statements or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Davis Farr is responsible for the attached auditor's report, dated January 19, 2023, and the conclusions expressed therein. However, our review disclosed no instances where Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-237)

¹ The agreement number is SAF200-17-CA001.

UNIVERSITY OF CHICAGO

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. SAF200-17-CA001

To Support Core Operations in Kabul and the Continuation of Partnerships with the National
Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with
the Ministry of Information and Culture

For the period January 25, 2017 through December 31, 2021

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Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. SAF200-17-CA001
To Support Core Operations in Kabul and the Continuation of Partnerships with the National
Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with
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For the period January 25, 2017 through December 31, 2021

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March 7, 2023

Enclosed is the final report on the audit of the special purpose financial statement by the University of Chicago (the "University") under the U.S. Department of State Cooperative Agreement No. SAF200-17-CA001 to support core operations in Kabul and the continuation of partnerships with the National Museum of Afghanistan and with the Afghan Institute of Archaeology in collaboration with the Ministry of Information and Culture. The audit covers the period January 25, 2017 through December 31, 2021.

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

When preparing our report, we considered comments, feedback and interpretations from the University, the Special Inspector General for Afghanistan Reconstruction and the U.S. Department of State. Management of the University has prepared a response to the findings identified during our audit and that response is included as part of this report. The response has not been audited and we express no opinion on it.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA
Partner

UNIVERSITY OF CHICAGO

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. SAF200-17-CA001
To Support Core Operations in Kabul and the Continuation of Partnerships with the National
Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with the
Ministry of Information and Culture

For the period January 25, 2017, through December 31, 2021

Background

On January 25, 2017, the U.S. Department of State (State) awarded Cooperative Agreement No. SAF200-17-CA001 (agreement) to the University of Chicago's (University's) Oriental Institute to support core operations in Kabul and the continuation of partnerships with the National Museum of Afghanistan and the Afghan Institute of Archaeology in collaboration with the Ministry of Information and Culture. The principal goal of the project is to promote national unity and discourage violent extremism by building people to people connections and countering violent extremism. The objectives to accomplish this goal include:

- Maintain a secure base of operations in Kabul for both residence and working facilities for any University activities taking place in Afghanistan;
- Continue its partnership with the National Museum of Afghanistan and the Afghan Institute of Archaeology;
- Oversee continued digital cataloging of the holdings of the National Museum; and
- Conduct and complete a thorough conservation assessment of the entire Hadda collection;

The initial awarded amount was \$2,000,000 for the period of performance from January 25, 2017 through January 31, 2020, plus two option years. After six modifications to the agreement, the total funding increased to \$4,525,000, and the period of performance was extended from January 31, 2020 to December 31, 2022.

The University was founded in 1890 as an urban research **institution on Chicago's South Side**. It operates more than 140 research centers and institutes on campus. The Oriental Institute at the University was founded in 1919 and has led excavations and research projects throughout the Middle East, many of which are ongoing in countries including Egypt, Iraq, Turkey and Afghanistan.

Work to be Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct an audit of the University's Special Purpose Financial Statement under the agreement for the period January 25, 2017 through December 31, 2021. Total costs reported by the University were \$3,863,090.

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

UNIVERSITY OF CHICAGO

Audit of the Special Purpose Financial Statement For Cooperative Agreement No. SAF200-17-CA001

To Support Core Operations in Kabul and the Continuation of Partnerships with the National Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with the Ministry of Information and Culture

For the period January 25, 2017, through December 31, 2021

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether the University’s SPFS for the agreement presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the agreement and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of the University’s **internal** control related to the agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether the University complied, in all material respects, with the agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the agreement and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether the University has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included \$3,863,090 of actual costs incurred for the period January 25, 2017 through December 31, 2021. The period of performance of the agreement is not yet complete. Our testing of the indirect cost rate was limited to comparing the indirect cost rate used in the SPFS to the indirect cost rate required by the agreement.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on March 30, 2022. Participants included representatives of Davis Farr, the University, SIGAR and State.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of the University;
- Reviewed the agreement and all modifications to date;

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Audit of the Special Purpose Financial Statement For Cooperative Agreement No. SAF200-17-CA001

To Support Core Operations in Kabul and the Continuation of Partnerships with the National Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with the Ministry of Information and Culture

For the period January 25, 2017, through December 31, 2021

- Reviewed the Code of Federal Regulations (CFR) Section 2 CFR Parts 200 and 600, as applicable to the agreement;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high, moderate, or low risk for inclusion in our test of transactions. All samples were selected on a judgmental basis. Our sampling methodology was as follows:
 - For accounts that appear to contain unallowable and restricted items according to the terms of the agreement, 2 CFR Part 200 and any other applicable regulations, we sampled 100% of the transactions.
 - For high risk cost categories, we sampled transactions greater than \$19,300, and additional transactions below \$19,300 to ensure that at least 50% of the total amount expended for each cost category was sampled.
 - For moderate risk categories, we sampled transactions greater than \$38,600, and additional transactions below \$38,600 to ensure that at least 20% of the total amount expended for each cost category was sampled.
 - Low risk categories consisted of indirect charges. No sample was selected for indirect charges as we tested the proper application of the indirect cost rate as specified in the agreement.

Internal Control Related to the SPFS

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

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the agreement and modifications and documented all compliance requirements that could have a direct and material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance with the agreement requirements and laws and regulations.

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Corrective Action on Prior Findings and Recommendations

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

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

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

Exit Conference

An exit conference was held on November 8, 2022 online via Zoom. Participants included representatives from Davis Farr, the University and SIGAR. There were no representatives from State that participated on the exit conference. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by the University under the agreement with State identified the following results:

Auditor's Opinion on SPFS

We issued a qualified opinion on the fairness of the presentation of the SPFS due to material questioned costs. We identified \$632,866 in total questioned costs which entirely consist of unsupported costs. A summary of findings and questioned costs is described in the next section.

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For the period January 25, 2017, through December 31, 2021

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Issue	Questioned Costs	Cumulative Questioned Costs
2022-01	Internal control – material weakness Non-Compliance	Unsupported costs	\$632,866	\$632,866
2022-02	Internal control – significant deficiency Non-compliance	No documentation for sole source procurement	\$0	\$632,866
2022-03	Internal control – deficiency Non-compliance	Currency conversion not documented	\$0	\$632,866
2022-04	Internal control – deficiency Non-compliance	Lack of Evidence for Exclusion and/or Anti-Terrorist Check	\$0	\$632,866

Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered the University’s internal control over financial reporting and performed tests of those controls. The results of our tests disclosed four internal control weaknesses required to be reported under *Government Auditing Standards*. One weakness is considered to be material, one weakness is considered to be a significant deficiency and the other two weaknesses are considered to be deficiencies. See Independent Auditor’s Report on Internal Control on page 17.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of the University’s compliance with certain provisions of the agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed four instances of noncompliance related to this audit. See Independent Auditor’s Report on Compliance on page 19.

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*. During our audit testing, we determined that the supporting documentation provided by the University was not sufficient and receipts for most of the transactions consisted solely of typewritten receipts indicating funds were received. The University could not provide any additional supporting documentation for all transactions except the typewritten

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Audit of the Special Purpose Financial Statement
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For the period January 25, 2017, through December 31, 2021

receipts. There is reasonable doubt about the authenticity of the costs incurred due to lack of adequate supporting documentation and potentially fraudulent activities may have occurred under this award. The results of our testing and our determination has been reported to SIGAR.

Review of Prior Findings and Recommendations

We requested from the University, SIGAR and State copies of any prior engagements including audits, reviews, attestation engagements relate to the University's **activities under the** agreement. We identified four prior reports, which one of them contained one finding that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We performed follow-up procedures, tested transactions, and reviewed documentation to determine if the issue occurred under the current audit. Accordingly, we have concluded that the University has taken adequate corrective action on the finding. See the Status of Prior Findings on page 29 for a detailed description of the prior findings and recommendations.

Summary of the University's Responses

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

- Finding 2022-01 – The University partially agreed with the finding and recommendation related to unsupported costs indicating that some transactions were not supported at the time of fieldwork. The University disagreed with a portion of the finding indicating that the questioned costs included in the finding were supported by signed receipt statements. Additionally, the University indicated that subsequent to the audit fieldwork, it was able to locate rental agreements.
- Finding 2022-02 – The University partially agreed with the finding and recommendation, but does indicate it has a policy in place for sole source procurements. The University will provide refresher training to its employees on these types of procurements.
- Finding 2022-03 – The University agrees with this finding and recommendation that currency conversion support was inconsistently provided.
- Finding 2022-04 – The University agrees with this finding and recommendation that its subcontractor did not conduct exclusion or anti-terrorist checks of its vendors.

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Ministry of Information and Culture

For the period January 25, 2017, through December 31, 2021

References to Appendices

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

**INDEPENDENT AUDITOR'S REPORT
ON SPECIAL PURPOSE FINANCIAL STATEMENT**

University of Chicago
Edward H. Levi Hall
5801 S. Ellis Avenue
Chicago, Illinois 60637

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

Report on the Special Purpose Financial Statement

Opinion

We have audited the Special Purpose Financial Statement of the University of Chicago (University) under Cooperative Agreement No. SAF200-17-CA001 (agreement) with the U.S. Department of State to support core operations in Kabul and the continuation of partnerships with the National Museum of Afghanistan and with the Afghan Institute of Archaeology in collaboration with the Ministry of Information and Culture for the period January 25, 2017 through December 31, 2021, and the related notes to the Special Purpose Financial Statement.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying Special Purpose Financial Statement presents fairly, in all material respects, the respective revenue received, and costs incurred by the University under the agreement for the period January 25, 2017, through December 31, 2021, in accordance with the basis of accounting described in Note 2.

Basis for Qualified Opinion

We identified \$632,866 in total questioned costs resulting from instances of noncompliance with the terms and conditions of the agreement and 2 CFR 200.403(g). The questioned costs are material to the Special Purpose Financial Statement.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of the University and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

University of Chicago
Edward H. Levi Hall
5801 S. Ellis Avenue
Chicago, Illinois 60637

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

Responsibilities of Management for the Special Purpose Financial Statement

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

In preparing the Special Purpose Financial Statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's **ability to continue as a going concern** for the later of twelve months beyond the Special Purpose Financial Statement date or the end of the period of performance of the agreement.

Auditor's Responsibility for the Audit of the Special Purpose Financial Statement

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statement as a whole is free from material misstatement, whether due to fraud or **error, and to issue an auditor's report that includes our opinion.** Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Special Purpose Financial Statement.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Special Purpose Financial Statement.
- Obtain an understanding of internal control relevant to the audit 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 University's **internal control.** Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Special Purpose Financial Statement.

University of Chicago
Edward H. Levi Hall
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- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the University's **ability to continue as a** going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Restriction on Use

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 19, 2023, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Dawn Farn LLP

Irvine, California
January 19, 2023

UNIVERSITY OF CHICAGO

Special Purpose Financial Statement
For Cooperative Agreement No. SAF200-17-CA001

Support Core Operations in Kabul and the Continuation of Partnerships with the National Museum of Afghanistan
and with the Afghan Institute of Archaeology in Collaboration with the Ministry of Information and Culture

For the Period January 25, 2017 through December 31, 2021

	Budget	Costs Incurred	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
SAF200-17-CA001	\$ 4,525,000	\$ 3,863,090	\$ -	\$ -	\$ -	(3)
Total revenues	<u>4,525,000</u>	<u>3,863,090</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	\$553,685	514,096	-	-	-	
Fringe	109,580	106,023	-	-	-	
Travel	399,027	185,116	-	-	-	
Equipment	5,506	11,000	-	-	-	(A)
Supplies	394,528	275,059	-	39,363	39,363	(B)
Contractual	694,725	629,761	-	25,607	25,607	(C)
Other direct costs	1,435,352	1,347,159	-	437,305	437,305	(D)
Indirect costs	<u>932,597</u>	<u>794,876</u>	<u>-</u>	<u>130,591</u>	<u>130,591</u>	(4)
Total costs incurred	<u>4,525,000</u>	<u>3,863,090</u>	<u>-</u>	<u>632,866</u>	<u>632,866</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (632,866)</u>	<u>\$ (632,866)</u>	(5),(E)

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

UNIVERSITY OF CHICAGO

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. SAF200-17-CA001
To Support Core Operations in Kabul and the Continuation of Partnerships with the National
Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with the
Ministry of Information and Culture

Notes to Special Purpose Financial Statement¹

For the period January 25, 2017, through December 31, 2021

(1) Background

On January 25, 2017, the U.S. Department of State (State) awarded Cooperative Agreement No. SAF200-17-CA001 (agreement) to the University of Chicago's (**University's**) Oriental Institute to support core operations in Kabul and the continuation of partnerships with the National Museum of Afghanistan and the Afghan Institute of Archaeology in collaboration with the Ministry of Information and Culture. The principal goal of the project is to promote national unity and discourage violent extremism by building people to people connections and countering violent extremism. The objectives to accomplish this goal include: (1) maintain a secure base of operations in Kabul for both residence and working facilities for any University activities taking place in Afghanistan; (2) continue its partnership with the National Museum of Afghanistan and the Afghan Institute of Archaeology; (3) oversee continued digital cataloging of the holdings of the National Museum; and (4) conduct and complete a thorough conservation assessment of the entire Hadda collection;

The initial awarded amount was \$2,000,000 for the period of performance from January 25, 2017, through January 31, 2020, plus two option years. After modifications to the agreement, the total funding increased to \$4,525,000, and the period of performance was extended from January 31, 2020, to December 31, 2022.

The University was founded in 1890 **as an urban research institution on Chicago's South Side**. It operates more than 140 research centers and institutes on campus. The Oriental Institute at the University was founded in 1919 and has led excavations and research projects throughout the Middle East, many of which are ongoing in countries including Egypt, Iraq, Turkey and Afghanistan.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes revenue received and costs incurred under the agreement for the period January 25, 2017, through December 31, 2021. Because the SPFS presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the University. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America and is specific to the aforementioned agreement.

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

UNIVERSITY OF CHICAGO

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. SAF200-17-CA001
To Support Core Operations in Kabul and the Continuation of Partnerships with the National
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Notes to Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The SPFS was prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Expenses are recognized following the cost principles contained in 2 CFR 200 Subpart E and 2 CFR 600, wherein certain types of expenses are not allowable or are limited as to reimbursement.

Currency

The SPFS is presented in U.S. Dollars. The University converts any expenses that were paid in Afghanis (local currency) into U.S. Dollars (reporting currency) by using the last actual conversion rate for transfers made to move funds between its U.S. Dollar account and the Afghani account.

(3) Revenue

The University reported revenue of \$3,863,090 for the period January 25, 2017 through December 31, 2021.

(4) Indirect Costs

Amendment No. M002 to the agreement specifies an indirect cost rate of 26% applied to modified total direct costs (MTDC). MTDC includes all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward, regardless of the period of performance of the subawards under the award. MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs and the portion of each subaward in excess of \$25,000.

(5) Outstanding Fund Balance

As of December 31, 2021, there was no outstanding fund balance under the agreement as the SPFS is prepared on the accrual basis of accounting described in Note 2.

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Notes to Special Purpose Financial Statement

(Continued)

(6) Subsequent Events

The University has evaluated subsequent events through January 19, 2023, which is the date the SPFS was available to be issued. There were no events subsequent to this date that would impact the SPFS.

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Audit of the Special Purpose Financial Statement
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Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

For the period January 25, 2017, through December 31, 2021

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

(A) Equipment

The University reported equipment costs of \$11,000 for the period January 25, 2017, through December 31, 2021. The budget for equipment was \$5,506. As such, total costs were in excess of the budget by \$5,494. The University received approval from State for the purchase of the equipment, and the agreement allows for cost overruns of up to 10% of the total costs, provided the total costs are not exceeded. As such, no costs were questioned.

(B) Supplies

The University reported supplies costs of \$275,059 for the period January 25, 2017, through December 31, 2021. During our audit of these costs, we identified \$39,363 in questioned costs consisting of insufficiently supported transactions. See Finding No. 2022-01.

(C) Contractual

The University reported contractual costs of \$629,761 for the period January 25, 2017, through December 31, 2021. During our audit of these costs, we identified \$25,607 in questioned costs consisting of unsupported transactions. See Finding No. 2022-01.

(D) Other Direct Costs

The University reported other direct costs of \$1,347,159 for the period January 25, 2017, through December 31, 2021. During our audit of these costs, we identified \$437,305 of question costs consisting of insufficiently supported transactions. See Finding No. 2022-01.

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

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Audit of the Special Purpose Financial Statement
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Notes to Questioned Costs Presented on the Special Purpose Financial Statement

(Continued)

(E) Indirect Costs

The University reported indirect costs of \$794,876 for the period January 25, 2017, through December 31, 2021. The indirect cost rate described in Note 4 of the Notes to Special Purpose Financial Statement were applied to the associated questioned costs identified in Notes B, C and D, which resulted in questioned (unsupported) indirect costs of \$130,591.

(F) Outstanding Fund Balance

The University no outstanding fund balance for the period January 25, 2017, through December 31, 2021. The total outstanding fund balance as of December 31, 2021 in the amount of \$(632,866) represents the total questioned unsupported costs of \$632,866 of the reported outstanding fund balance.

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

INDEPENDENT AUDITOR'S REPORT

University of Chicago
Edward H. Levi Hall
5801 S. Ellis Avenue
Chicago, Illinois 60637

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of the University of Chicago (University) under Cooperative Agreement No. SAF200-17-CA001 with the U.S. Department of State (State) to support core operations in Kabul and the continuation of partnerships with the National Museum of Afghanistan and with the Afghan Institute of Archaeology in collaboration with the Ministry of Information and Culture for the period January 25, 2017 through December 31, 2021, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated January 19, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered the University's internal control 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 Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified one deficiency in internal control, described in the accompanying Detailed Audit Findings as Finding Number 2022-01 that we consider to be a material weakness. In addition, we identified one deficiency in internal control, described in the accompanying Detailed Audit Findings as Finding Number 2022-02, that we consider to be a significant deficiency, and two deficiencies in internal control, described in the accompanying Detailed Audit Findings as Finding Numbers 2022-03 and 2022-04, that we consider to be deficiencies.

The **University's Response to Findings**

Government Auditing Standards requires the auditor to perform limited procedures on the University's response to the findings identified in our audit and described in the accompanying Detailed Audit Findings. The University's response was not subjected to the other auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Restriction on Use

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

Dawn Fann LLP

Irvine, California
January 19, 2023

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

INDEPENDENT AUDITOR'S REPORT

University of Chicago
Edward H. Levi Hall
5801 S. Ellis Avenue
Chicago, Illinois 60637

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of the University of Chicago (University) under Cooperative Agreement No. SAF200-17-CA001 (agreement) with the U.S. Department of State (State) to support core operations in Kabul and the continuation of partnerships with the National Museum of Afghanistan and with the Afghan Institute of Archaeology in collaboration with the Ministry of Information and Culture for the period January 25, 2017 through December 31, 2021, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated January 19, 2023.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and the aforementioned agreement, noncompliance with which could have a direct and material effect on the determination of Special Purpose Financial Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings as Finding Numbers 2022-01, 2022-02, 2022-03 and 2022-04.

The University's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the University's response to the findings identified in our audit and described in the accompanying Detailed Audit Findings. The University's response was not subjected to the other auditing

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procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Restriction on Use

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

Dawn Fann LLP

Irvine, California
January 19, 2023

UNIVERSITY OF CHICAGO

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. SAF200-17-CA001
To Support Core Operations in Kabul and the Continuation of Partnerships with the National
Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with the
Ministry of Information and Culture

Detailed Audit Findings

For the period January 25, 2017, through December 31, 2021

Finding 2022-01: Unsupported Costs

Nature of Finding:
Internal control – material weakness
Noncompliance

Condition:
During our testing procedures, we tested the following cost categories to ensure the incurred costs were allowable, reasonable, and allocable to the agreement:

- We tested 7 out of 81 payments for supplies totaling \$157,147, and noted that no documentation, such as invoices, procurement information and evidence of payment, was provided to support a portion of 2 of the payments in the amount of \$39,363.
- We tested 52 out of 119 payments for contractual costs totaling \$503,365, and noted that a portion of 2 of the payments in the amount of \$25,607 was insufficiently supported. The documentation provided consisted of typewritten receipts that indicated a dollar amount received as reimbursement for the costs incurred. There was no evidence such as invoices or rental agreements provided.
- We tested 47 out of 332 payments for other direct costs, which consisted of 1,261 transactions in the total amount of \$1,026,443, and noted that 270 transactions totaling \$437,305 included in 28 of the payments were insufficiently supported as follows:

<u>Description</u>	<u>Number of Transactions</u>	<u>Amount</u>
Rental of house	11	\$209,972
Food costs for house	40	73,840
Rental of private vehicles and transportation costs	210	130,393
Visas	<u>9</u>	<u>23,100</u>
Totals	<u>270</u>	<u>\$437,305</u>

The documentation provided to support these other direct costs consisted of typewritten receipts that indicated a dollar amount received as reimbursement for the costs incurred. There were no rental agreements for the house, rental agreements for the private vehicles, details of food purchased or transportation cost details provided.

UNIVERSITY OF CHICAGO

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Detailed Audit Findings

(Continued)

Cause:

The costs were incurred primarily **by the University's subcontractors**. **The University did not** adequately monitor the subcontractors to ensure that they provided documentation supporting their costs.

Criteria:

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

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

(g) Be adequately documented..."

Cooperative Agreement No. SAF200-17-CA001, *The U.S. Department of State Standard Terms and Conditions*, states, in part:

"...VI. **Non-Federal Entity Responsibilities and Compliance with Federal Requirements...**

The non-Federal entity has full responsibility for the management of the project or activity supported under the award and for adherence to Federal regulations and the **award terms and conditions...**

In accordance with 2 CFR 330, terms and conditions flow down to all non-Federal entity subrecipients and contractors, and must be appropriately addressed in the performing **organization's sub-award instrument**. All cost reimbursement sub-awards (sub-grants, subcontracts, etc.) are subject to those Federal cost principles applicable to **the particular organization concerned...**"

Effect:

A lack of complete documentation of costs increases the risk that the Government will pay for non-allowable and unreasonable goods and/or services.

Questioned Costs:

The total questioned pertaining to supplies, contractual and other direct costs (ODCs) resulting from unsupported and insufficiently supported transactions charged to the agreement was \$632,866, including associated indirect costs of \$130,591 as follows:

UNIVERSITY OF CHICAGO

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Detailed Audit Findings

(Continued)

	<u>Supplies</u>	<u>Contractual</u>	<u>Other Direct Costs</u>	<u>Total Questioned Costs</u>
Questioned costs	\$39,363	\$25,607	\$437,305	\$502,275
Associated questioned indirect costs	<u>10,234</u>	<u>6,658</u>	<u>113,699</u>	<u>130,591</u>
Total questioned costs	<u>\$49,597</u>	<u>\$32,265</u>	<u>\$551,004</u>	<u>\$632,866</u>

Recommendation:

- (1) We recommend that the University either provide adequate documentation to support the costs incurred or return \$632,866 to the U.S. Government.
- (2) We recommend that the University establish procedures to ensure its subcontractors have policies and procedures in place to ensure documentation properly supports costs in accordance with the Code of Federal Regulations.

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Detailed Audit Findings

(Continued)

Finding 2022-02: No Documentation for Sole Source Procurement

Nature of Finding:

Internal control – Significant deficiency
Noncompliance

Condition:

The University used three major subcontractors under the agreement. During our review of these major subcontractors, the University indicated that each of the major subcontractors was selected on a sole source basis. The procurement files did not include competitive bidding documentation, sole source justification if not competitively procured, and no cost and price analysis. Additionally, there was no approval from State for the sole source procurement.

Cause:

The University indicated that the hiring of the major subcontractors did not go through the **University's formal vendor selection process** due to the need to start the project in-country. The University indicated that the vendors were selected using the criteria of price reasonableness and sole source.

Criteria:

The University of Chicago Policy 1201, *Authority and Responsibility for Procuring Goods and Services*, states, in Part:

"...All University procurement policies shall be in compliance with federal regulations for procurement standards, which provide that no commitment of funds shall be made unless, as stated in OMB A-110 §40, "such materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal Law and executive orders..."

2 CFR 200.319, *Competition*, states, in part:

"(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section...

(d) The non-Federal entity must ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, the non-Federal entity must not preclude potential bidders from qualifying during the solicitation period..."

UNIVERSITY OF CHICAGO

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Detailed Audit Findings

(Continued)

2 CFR 200.320, *Methods of procurement to be followed*, states, in part:

“(f) Procurement by noncompetitive proposals. Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source and may be used only when one or more of the following circumstances apply:

(1) The item is available only from a single source;

(2) The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation;

(3) The Federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-Federal entity;
or

(4) After solicitation of a number of sources, competition is determined inadequate...”

2 CFR 200.323, *Contract cost and price*, states, in part:

“(a) The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications...”

Effect:

Not conducting a competitive procurement and not documenting justification for a sole source procurement can result in the U.S. Government overpaying for goods and/or services.

Questioned Costs:

There are no questioned costs associated with this issue as the cost incurred by the University was deemed reasonable.

Recommendation:

We recommend that the University enhance its procurement policies to clarify requirements in the Code of Federal Regulations regarding sole source procurements, in particular when such procurements are allowed and what documentation is required to justify such procurement.

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Detailed Audit Findings

(Continued)

Finding 2022-03: Currency Conversion Not Documented

Nature of Finding:

Internal control – deficiency
Noncompliance

Condition:

During our testing of currency conversions, we noted that the University did not document its currency conversion for 25 payments for other direct costs and 2 payments for contractual services. These payments were made in the local currency but reported in U.S. dollars on the SPFS.

Cause:

The University did not perform nor document review of its currency conversions over the payment process.

Criteria:

Cooperative Agreement No. SAF200-17-CA001, *The U.S. Department of State Standard Terms and Conditions*, Provision III, *Controlling Language*, states, in part:

"In accordance with 2 CFR 200.111, it is the Department of State's policy that all award documents must be in the English language and in terms of U.S. dollars, including correspondence and supporting documents.

Effect:

The lack of exchange rate documentation could lead to unrealized gains or losses on currency conversion.

Questioned Costs:

No costs were questioned. We recalculated the currency conversion for the payments for which the currency conversion was not documented and noted that the conversions were correct.

Recommendation:

We recommend that the University establish procedures to ensure that all payments made in a foreign currency are converted to U.S. Dollars and evidence of the conversion is documented.

UNIVERSITY OF CHICAGO

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Detailed Audit Findings

(Continued)

Finding 2022-04: Lack of Evidence for Exclusion and/or Anti-Terrorist Check

Nature of Finding:

Internal control – deficiency
Noncompliance

Condition:

During our testing of 109 out of 512 payments for supplies, other direct costs and contractual services, which consisted of testing 22 different vendors out of a total of 49 vendors, no documentation was provided to support whether the University performed an exclusion and/or anti-terrorist check on any of its vendors.

Cause:

The University conducted a background check on the subcontractors who made purchases of goods and services on behalf of the University. The University did not monitor its subcontractors to ensure that they were conducting exclusion and/or anti-terrorist checks on vendors the subcontractors were acquiring goods and or services from.

Criteria:

Cooperative Agreement No. SAF200-17-CA001, *The U.S. Department of State Standard Terms and Conditions*, states, in part:

"...XXXIII. Blocking Property and Prohibiting Transactions Who Commit, Threaten to Commit, or Support Terrorism, Executive Order 13224...

Non-Federal entities should be aware of Executive Order 13224 and the names of the individuals and entities designated thereunder. A list of these names can be found in the exclusions section of the SAM.gov. The web site is: <http://www.sam.gov>.

Non-Federal entities are reminded that U.S. Executive Order and U.S. laws prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the non-Federal entity/contractor to ensure compliance with these Executive Orders and laws..."

Additionally, Cooperative Agreement No. SAF200-17-CA001, *The U.S. Department of State Standard Terms and Conditions*, states, in part:

"...VI. Non-Federal Entity Responsibilities and Compliance with Federal Requirements...

UNIVERSITY OF CHICAGO

Audit of the Special Purpose Financial Statement
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To Support Core Operations in Kabul and the Continuation of Partnerships with the National Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with the Ministry of Information and Culture

Detailed Audit Findings

(Continued)

The non-Federal entity has full responsibility for the management of the project or activity supported under the award and for adherence to Federal regulations and the **award terms and conditions...**

In accordance with 2 CFR 330, terms and conditions flow down to all non-Federal entity subrecipients and contractors and must be appropriately addressed in the performing **organization's sub-award instrument**. All cost reimbursement sub-awards (sub-grants, subcontracts, etc.) are subject to those Federal cost principles applicable to **the particular organization concerned..."**

Effect:

The lack of supporting documentation that exclusion or anti-terrorist checks were performed increases the risk that Federal funds were used in the support of terrorist activities.

Questioned Costs:

We performed exclusion and/or anti-terrorist checks of the vendors in question and noted that none of the vendors appear on an exclusion and/or anti-terrorist list. As such, no costs were questioned.

Recommendation:

We recommend that the University establish procedures and instruct management to ensure that exclusion and/or anti-terrorist checks are performed by its subcontractors and that evidence of the exclusion and/or anti-terrorist checks is retained and made available for audit when requested by the U.S. Government or its representatives in accordance with Executive Order 12334 and the Code of Federal Regulation.

UNIVERSITY OF CHICAGO

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Status of Prior Findings

For the period January 25, 2017, through December 31, 2021

We requested from the University, SIGAR and State copies of any prior engagements including audits, reviews, attestation engagements relate to the University's **activities under the** agreement. We reviewed four prior reports, all of which consisted of Single Audits in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). One report contained one finding that could have a potential material effect on the SPFS or other financial data significant to the audit objectives. We have performed follow up procedures including discussion with management, reviewed the revised policies and procedures, and conducted testing of similar areas surrounding these issues. Accordingly, we have concluded that the University has taken adequate corrective actions on the prior finding and this finding was not repeated under this audit. The summary of prior audit findings that could have a potential material effect on the SPFS is listed below:

Single Audit Report for the Year Ended June 30, 2020, which was conducted by KPMG LLP

- Finding 2020-001: Inaccurate and Untimely Enrollment Reporting: The audit firm noted that the University did not accurately and/or timely report student address changes and student enrollment status changes at both the campus-level and program-level to the National Student Loan Data System (NSLDS).

Status: We tested the timeliness of 20 quarterly progress reports required to be submitted under the terms of the agreement and found all 20 to have been submitted timely. As such, the corrective action plan has been adequately implemented.



February 10, 2023

Davis Farr LLP
18201 Von Karman Avenue, Suite 1100
Irvine, CA 92612

RE: University of Chicago Management Responses to Davis Farr LLP's Draft Report on the Audit of the Special Purpose Financial Statement for Cooperative Agreement No. SAF200-17-CA001 to Support Core Operations in Kabul and the Continuation of Partnerships with the National Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with the Ministry of Information and Culture for the period January 25, 2017 through December 31, 2021

Dear Davis Farr LLP Auditors,

The University of Chicago would like to thank you for sending us the draft audit report on the Special Purpose Financial Statement for the period of January 25, 2017 through December 31, 2021, and allowing us the opportunity to comment. We have provided responses to the findings listed in the report, and hope that this information proves helpful in resolving the identified issues.

Finding 2022-01: Unsupported Costs

The University of Chicago partially agrees with this finding. Since the issuance of the draft audit report, the Oriental Institute successfully contacted the previous landlord in Afghanistan and obtained copies of the housing rental agreements supporting \$209,972 in questioned charges plus proportional indirect costs. These documents are provided to the Department of State as enclosures to this response. Additionally, the Oriental Institute is reviewing current policies and procedures to ensure that supporting contracts and documentation, when available, are adequately saved and maintained.

The other questioned charges detailed in this finding had been supported through the use of signed receipt statements. Each statement included the following: a. description of the payment; b. the date of the transaction; c. the amount; d. signature by Kabul-based Finance Manager; e. signature by the receiving party; and was reviewed by the Kabul-based Field Director, a University employee. It is important to note, that the overwhelming majority of expenses charged to this project *did* include printed receipts and/or contracts. Receipt statements were relied upon during this project in cases when a formal receipt was not available or reserved for vendors that were functionally illiterate thus making them unable to invoice or enter into non-verbal agreements. The submission of the signed receipt statements, the established travel advance process, the chain of approvals, and frequent communications with the Department of State, demonstrate an appropriate level of due diligence and support. Additionally, the project team budgeted for many of these charges at proposal stage, provided detailed reporting to the Department of State throughout the life of the award, and completed the project within budget and to satisfaction.

Upon review of the finding and recommendations, the University is evaluating policy and current guidance on supporting documentation standards and will communicate the obligations and best practices to our

APPENDIX A: Views of Responsible Officials

community. The University Research Administration office will create and publish sponsored award supporting documentation guidance and standards on our website. In addition, the Oriental Institute has already begun to engage University of Chicago Procurement to improve procedural, contractual, payment, or documentation processes related to their international work.

Finding 2022-02: No Documentation for Sole Source Procurement

The University of Chicago partially agrees with this finding. The University does have policy and practices in place regarding sole source documentation, price reasonableness, and competitive bidding. The project team provided justifications to support the hiring of these contractors during the audit and named one of the contractors in their proposal to the Department of State, but acknowledges that the hiring of these subcontractors did not go through the University's full formal vendor selection process. Deviations from standard University procurement and contracting policies, while not desirable, were rooted in pragmatic considerations and reflect the unique challenges of operating in a volatile, post-conflict state. The University has reviewed the support provided by Oriental Institute regarding the hiring of these contractors and believes that such support would have provided a reasonable basis for a sole source award.

The University will provide refresher training to campus on current policy and requirements surrounding vendor selection and engagement. In addition, the Oriental Institute has already begun to engage University of Chicago Procurement to improve procedural, contractual, payment, or documentation processes related to their international work.

Finding 2022-03: Currency Conversion Not Documented

The University agrees with this finding and acknowledges that currency conversion support was inconsistently provided. The conversions completed for this project were reviewed and appear accurate. However, the University is evaluating policy and current guidance on supporting documentation standards.

University-wide policies can take time to formally approve given potential impacts on activity outside of sponsored research. Therefore, as current policies are evaluated, the University Research Administration office will create and publish sponsored award supporting documentation guidance and standards on our website.

Finding 2022-04: Lack of Evidence for Exclusion and/or Anti-Terrorist Check

The University agrees with this finding and is reviewing its current processes related to flow-down clauses to ensure that Executive Order 13224 is appropriately flowed down on applicable contracts. Additionally, the Oriental Institute has already begun to engage University of Chicago Procurement to improve procedural, contractual, payment, or documentation processes related to their international work.

However, it is important to note that the University has a policy and procedure for performing reviews and checks related to EO 13224 and that entities, employees, and contractors paid through this program were routinely screened by the Department of State for anti-terrorist activities through the RAM system and with the assistance of the University project staff.

APPENDIX A: Views of Responsible Officials

Over the past ten years, the Oriental Institute has managed four different State Department-sponsored cultural heritage grants in Afghanistan, provided a safe base of operations in Kabul for foreign experts to work side-by-side with their Afghan colleagues, and delivered high-quality products on-time and on-budget. As the more than twenty-year mission of the United States in Afghanistan and this cooperative agreement draw to a close, we reflect proudly on all the high-impact cultural heritage work we achieved, all the while maintaining the highest standards of integrity.

We thank you again for the opportunity to comment and please do not hesitate to reach out with any further questions.

Sincerely,



Emily Cheng
Director, Quality Management
University Research Administration, Office of Research and National Laboratories,
The University of Chicago, 6054 South Drexel Avenue, Suite 300 Chicago, IL 60637

Attachments:
Supporting Documentation: Housing Rental Agreements

**APPENDIX A: Views of Responsible Officials
Residential agreement**



_____ sign
agreement according to the terms of this agreement.

I landlord (that my identification has mentioned above) give to rent my house that is located in Finist road of 4th district rented for the term of two year in the rate of 266500AFN that is equal to 4100USD monthly.

Condition of agreement

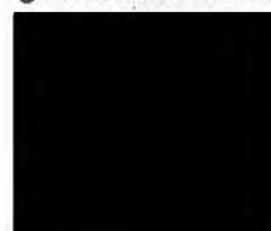
Based of this agreement tenant has to pay six month rent in advance which is countable and the rest of rent will pay during of next six month of the year.

- 1- This agreement is applicable which commence from 01-10-2016 up to 30-09-2018 and cover two year
- 2- Tenant will pay for the bill of electricity, water and telephone beginning of signing this agreement payment before of date of sign is landlord responsibility.
- 3- In case of damages of because of carless usage of building and appliances (that has describe in the submission list) tenants oblige to repair or pay the cost of it, damage because of natural factors that is out of control like earthquake, flood ,riot and firing of riot is exception.
- 4- If one side of party of this agreement intend to terminate this agreement he should inform about his decision one month in advance by a notice and will pay a fine amount of one month of property rent.
- 5- Tenant is going to accept the property according the separate list of appliances and furnishes of termination of agreement will submit the property according that list to the landlord.
- 6- Government tax will be paid by tenant and it is not landlord responsibility.
- 7- This agreement has signed by within seven items both parties with no force and obligation and cover seven items.

Signature of tenant



signature of landlord



Residential agreement

[REDACTED]
[REDACTED] resident of Shar e Naw temporary district landlord and tenant [REDACTED]
[REDACTED] sign agreement according to the term of this agreement.

I landlord (that my identification has mentioned above) give to rent my house that is located in Finist road of 4th district rented for the term of two years in the rate of 303750 AFN that is equal to 4050USD monthly.

Condition of agreement

Based of this agreement tenant has to pay six month rent in advance which is countable and the rest of rent will pay during of next six month of the year.

- 1- This agreement is applicable which commence from 01-10-2018 up to 30-90-2020 and cover two years.
- 2- Tenant will pay for the bill of electricity, water and telephone beginning of signing this agreement payment before of date of sign is landlord responsibility.
- 3- In case of damages of because of carless usage of building and appliances (that has describe in the submission list) tenant oblige to repair or pay the cost of it, damage because of natural factor that is out of control like earthquake, flood, riot and firing of riot is exception.
- 4- If one side of party of this agreement intend to terminate this agreement he should inform about this decision one month in advance by a notice and will pay a fine amount of one month of property rent.
- 5- Tenant is going to accept the property according to the separate list of appliances and furnishes of termination of agreement will submit the property according that list to the landlord.
- 6- This agreement has signed by within seven items both parties with no force and obligation and cover seven items.

Signature of tenant

[REDACTED]

signature of landlord

[REDACTED]

Residential agreement

[REDACTED]
[REDACTED] resident of Shar e Naw temporary district landlord and tenant [REDACTED]
[REDACTED] sign agreement according to the term of this agreement.

I landlord (that my identification has mentioned above) give to rent my house that is located in Finist road of 4th district rented for the term of one years in the rate of 349600 AFN that is equal to 4600USD monthly.

Condition of agreement

Based of this agreement tenant has to pay six month rent in advance which is countable and the rest of rent will pay during of next six month of the year.

- 1- This agreement is applicable which commence from 01-10-2020 up to 30-09-2021 and cover one years.
- 2- Tenant will pay for the bill of electricity, water and telephone beginning of signing this agreement payment before of date of sign is landlord responsibility.
- 3- In case of damages of because of carless usage of building and appliances (that has describe in the submission list) tenant oblige to repair or pay the cost of it, damage because of natural factor that is out of control like earthquake, flood, riot and firing of riot is exception.
- 4- If one side of party of this agreement intend to terminate this agreement he should inform about this decision one month in advance by a notice.
- 5- Tenant is going to accept the property according to the separate list of appliances and furnishes of termination of agreement will submit the property according that list to the landlord.
- 6- Government tax will be paid by tenant and it is not landlord responsibility.
- 7- This agreement has signed by within seven items both parties with no force and obligation and cover seven items.

Signature of tenant

[REDACTED]

signature of landlord

[REDACTED]

UNIVERSITY OF CHICAGO

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. SAF200-17-CA001
To Support Core Operations in Kabul and the Continuation of Partnerships with the National
Museum of Afghanistan and with the Afghan Institute of Archaeology in Collaboration with the
Ministry of Information and Culture

Auditor's Rebuttal to the University's Response to Findings

For the period January 25, 2017, through December 31, 2021

The University disagreed with a portion of Findings 2022-01 and 2022-02, and agreed with Findings 2022-03 and 2022-04. **We have reviewed management's response for its disagreements and provide the following rebuttals to the disagreements for Findings 2022-01 and 2022-02.**

Finding 2022-01: Unsupported Costs

The University disagreed with a portion of this finding indicating that it did provide support in the form of signed receipt statements that included a description of the payment, date, amount, signature by the Kabul-based Finance Manager, signature by the receiving party and the signed receipt statement was reviewed by the Kabul-based Field Director. Additionally, the University provided rental agreements with its response to support the rental of the house used in Kabul. These agreements were not provided during audit fieldwork.

We acknowledge that the signed receipt statements were provided as support for numerous transactions during audit fieldwork. However, this document is insufficient to support the transactions. Adequate support should include actual receipts from markets where food was purchased showing what was purchased, rental agreements for the rental of private vehicles, invoices for other transportation costs, invoices from the government or travel agency where the visas were actually purchased. In the absence of actual source documentation supporting the costs incurred, we are unable to determine whether the costs are reasonable, allowable and allocable to the award. Additionally, the rental agreements for the house were not provided during fieldwork and are missing the dates the agreements were entered into, or evidence of local real estate representation.

In the absence of adequate supporting documentation, this finding remains unchanged.

Finding 2022-02: No Documentation for Sole Source Procurement

The University disagreed with a portion of this finding indicating that it does have policies and practices regarding sole source documentation, price reasonableness and competitive bidding. We acknowledge that the University did, in response to our identification of a lack of sole source justification, provide testimonial evidence that the vendor would have been selected anyway had it followed its formal procurement process. This testimonial evidence does not support the fact that no documentation existed to support the sole source procurement. As such, this finding remains unchanged.

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- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
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- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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SIGAR's Mission

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