

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 25-13 Financial Audit

USAID's Supporting Transformation for Afghanistan's Recovery Program: Audit of Costs Incurred by Catholic Relief Services



**JANUARY
2025**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On February 17, 2021, the U.S. Agency for International Development (USAID) awarded a 2-year, \$19,997,965 cooperative agreement to Catholic Relief Services (CRS) to implement its Supporting Transformation for Afghanistan's Recovery Program. The program sought to build the resilience of marginalized communities in some of the poorest and most conflict-affected areas of Afghanistan. USAID modified the agreement seven times. The modifications increased the total obligated amount to \$28,338,901, and extended the performance period to December 31, 2024.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$17,421,662 in costs charged to the agreement from February 18, 2021, through September 30, 2023. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in CRS'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 CRS has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of CRS's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

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

January 2025

USAID's Supporting Transformation for Afghanistan's Recovery Program: Audit of Costs Incurred by Catholic Relief Services

SIGAR 25-13-FA

WHAT SIGAR FOUND

Conrad identified five significant deficiencies in CRS's internal controls and five instances of noncompliance with the terms of the agreement. For example, Conrad found 8 instances where CRS's Afghanistan Chief of Party did not adhere to the organization's established policies and procedures, resulting in unsupported and unjustified travel and other related costs charged to the award. Conrad also found 19 instances where CRS overcharged fringe benefit costs because of manual calculation errors. CRS was notified of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, Conrad identified a total of \$244,956 in questioned costs, consisting of \$214,961 in ineligible costs—costs prohibited by the agreement and applicable laws and regulations and \$29,995 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$182,171	\$25,462	\$207,633
Indirect Costs	\$32,790	\$4,533	\$37,323
Total Costs	\$214,961	\$29,995	\$244,956

Conrad identified findings in three prior audit reports that could have a material effect on the SPFS or other financial data significant to the audit objectives. The reports had 13 findings and accompanying recommendations. Conrad conducted follow-up procedures and concluded that CRS had not taken adequate corrective action on 4 of the 13 findings.

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

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$244,956 in questioned costs identified in the report.**
2. **Advise CRS to address the report's five internal control findings.**
3. **Advise CRS to address the report's five noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

January 17, 2025

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

Mr. Joel Sandefur
Mission Director, U.S. Agency for International Development

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Catholic Relief Services (CRS) under a cooperative agreement from the U.S. Agency for International Development (USAID) to implement its Supporting Transformation for Afghanistan's Recovery Program.¹ The program sought to build the resilience of marginalized communities in some of the poorest and most conflict-affected areas of Afghanistan. Conrad reviewed \$17,421,662 in costs charged to the agreement from February 18, 2021, through September 30, 2023. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$244,956 in questioned costs identified in the report.**
- 2. Advise CRS to address the report's five internal control findings.**
- 3. Advise CRS to address the report's five noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. We also inquired about Conrad'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 CRS's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, dated December 23, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which Conrad 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 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-289)

¹ The cooperative agreement number is 72030621CA00002.

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
Awarded by the United States Agency for International Development
in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

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December 30, 2024

Board of Directors
Catholic Relief Services
Baltimore, Maryland

Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

Conrad LLP (Conrad or we) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Catholic Relief Services' Special Purpose Financial Statement under Cooperative Agreement No. 72030621CA00002 awarded by the United States Agency for International Development's Mission to Afghanistan for the period of February 18, 2021 through September 30, 2023, in support of the activity titled "Supporting Transformation for Afghanistan's Recovery" (STAR).

On October 25, 2024, we provided SIGAR with a draft report reflecting our audit procedures and results. Catholic Relief Services (CRS) received a copy of the report on December 2, 2024 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and CRS' responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "S Perera", with a horizontal line underneath the name.

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
Awarded by the U. S. Agency for International Development
in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

Background

On February 17, 2021, the U.S. Agency for International Development's Mission to Afghanistan (USAID/Afghanistan) awarded Cooperative Agreement No. 72030621CA00002 (Cooperative Agreement) to Catholic Relief Services (CRS) in support of the program titled "Supporting Transformation for Afghanistan's Recovery" (STAR).

The objective of the STAR program is to build the resilience of marginalized communities in some of the poorest and most conflict-affected districts in Afghanistan. The design of the program is based on the context and needs of underserved communities and the expertise of CRS and five consortium partners in leveraging their operational presences, experienced local staff, and strong community relationships to ensure that interventions are appropriate. Under the agreement, CRS and its consortium partners aim to strengthen the food and livelihood security of families who have struggled due to the conflict. Specifically, CRS provides cash assistance, agricultural and livestock support, market skills and linkages, and improvements to critical infrastructure to advance sanitation, hygiene, and access to safe drinking water.

As detailed in the *Summary of Cooperative Agreement* below, the original period of performance was February 18, 2021, through February 17, 2023, with a total estimated USAID/Afghanistan Cooperative Agreement amount of \$19,997,965. The Cooperative Agreement was modified seven (7) times, extending the completion date to December 31, 2024, with the Cooperative Agreement amount increasing by \$8,340,936 for a total of \$28,338,901. Pursuant to the withdrawal of U.S. troops in August 2021, some CRS staff supported the STAR program remotely from Turkey, Kazakhstan, and the United Arab Emirates.

Summary of Cooperative Agreement

Cooperative Agreement Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
72030621CA00002	\$19,997,965	02/18/21	02/17/23	7	\$28,338,901	12/31/24

Founded in 1943, Catholic Relief Services is a religious non-profit organization based in the United States. CRS specializes in, among other programming, emergency response and recovery, water security, education, and agriculture. Headquartered in Baltimore, Maryland, Catholic Relief Services eases suffering and provides assistance to people in need, without regard to race, religion or nationality. Overseas, CRS offices are located in the regions of Africa, Asia, Europe, the Middle East and Latin America and the Caribbean.

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
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in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

Work Performed

Conrad LLP (Conrad) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the Cooperative Agreement, as mentioned above, of CRS' Special Purpose Financial Statement (SPFS) for revenue received and costs incurred under the Program totaling \$17,421,662 for the period February 18, 2021, through September 30, 2023.

Objectives, Scope, and Methodology

Audit Objectives

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

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

Scope

The scope of this audit included all costs incurred during the period of February 18, 2021, through September 30, 2023, totaling \$17,421,662, under the Cooperative Agreement. Our testing of the indirect cost charged to the Cooperative Agreement was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved in the Negotiated Indirect Cost Rate Agreement (NICRA) and subsequent applicable amendments.

(Continued)

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
Awarded by the U.S. Agency for International Development
in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

Audit Methodology

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

Entrance Conference

An entrance conference was held on March 4, 2024, with representatives of CRS, Conrad, SIGAR, and USAID/Afghanistan participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of CRS. The scope of our audit includes CRS' management and employees, internal and external factors that affected operations, accounting policies and procedures. We gained an understanding of CRS through interviews, observations, and reading policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
 - The Standards for Internal Control in the Federal Government (GAO-14-704G: Published: September 10, 2014);
 - Foreign Assistance Act of 1961, as amended;
 - 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Cooperative Agreements;
 - 2 CFR 700, USAID Uniformed Administrative Requirements, Cost Principles, and Audit Requirement for Federal Cooperative Agreements;
 - USAID/Afghanistan Automated Directives System (ADS) Chapter 303;
 - Prior audit reports;
 - Terms of the Cooperative Agreement and modifications between USAID/Afghanistan and CRS; and
 - CRS' Policies and Procedures.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs were properly recorded.

Special Purpose Financial Statement

(Continued)

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
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in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

In reviewing the SPFS, we performed the following:

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

Internal Controls Related to the Cooperative Agreement

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

Compliance with the Cooperative Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether CRS complied, in all material respects, with the Cooperative Agreement requirements, 2 CFR 200, 2 CFR 700, ADS 303, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Cooperative Agreement and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested prior audit reports from CRS and SIGAR and reviewed these reports to determine if there were any findings and recommendations that could have a material effect on CRS' SPFS. In addition, we also conducted a search online of various governmental websites including SIGAR (www.sigar.mil), USAID (www.usaid.gov), and other applicable Federal agencies, to identify previous engagements that could have a material effect on CRS' SPFS. For those engagements, Conrad evaluated the adequacy of

(Continued)

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
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Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the *Status of Prior Audit Findings* section on page 40.

Exit Conference

An exit conference was held on October 10, 2024, via conference call. Participants included representatives from Conrad, CRS, SIGAR, and USAID/Afghanistan. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

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

Auditor's Opinion on the SPFS

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

We identified \$244,956 in total questioned costs, which comprised \$214,961 in ineligible costs and \$29,995 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Cooperative Agreement's provisions or applicable laws and regulations, or not related to the Cooperative Agreement. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on CRS' SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Internal Controls

Our audit identified five (5) internal control findings. All five (5) internal control findings are considered to be significant deficiencies. See *Independent Auditor's Report on Internal Control* on page 19.

Compliance

The results of our testing identified five (5) instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 21.

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

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Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
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For the Period of February 18, 2021, through September 30, 2023

Government Auditing Standards. CRS stated there were no instances of alleged fraud that could have a potential impact on the Cooperative Agreement and the SPFS. As such, there are no further communications warranting additional consideration.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2024-01	Non-compliance and Internal Control – Significant Deficiency	Overcharges due to manual calculation errors.	\$ 214,870	\$ -	\$ 214,870
2024-02	Non-compliance and Internal Control – Significant Deficiency	Chief of Party did not adhere to established controls, leading to unsupported and unjustified costs.	-	21,553	236,423
2024-03	Non-compliance and Internal Control – Significant Deficiency	Non-Compliance with established controls related to training leading to questioned costs.	-	4,597	241,020
2024-04	Non-compliance and Internal Control – Significant Deficiency	Solar panels were installed at employees' homes without USAID/Afghanistan approval.	-	3,845	244,865

(Continued)

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
Awarded by the U.S. Agency for International Development
in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

2024-05	Non-compliance and Internal Control – Significant Deficiency	Excess costs were charged to the program.	91	-	244,956
Total Questioned Costs			\$ 214,961	\$ 29,995	\$ 244,956

Review of Prior Findings and Recommendations

We requested copies of prior audit reports and engagements from CRS, SIGAR, and USAID/Afghanistan pertinent to CRS' activities under the Cooperative Agreement. We identified three (3) prior audit reports that contained thirteen (13) findings and associated recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with management, reviewing evidence of revised policies and procedures and other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our audit. We concluded that CRS had taken adequate corrective actions on nine (9) out of the thirteen (13) prior audit findings and associated recommendations. Accordingly, CRS has not taken adequate corrective action to address findings and recommendations on four (4) out of the thirteen (13) prior audit findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. See *Status of Prior Audit Findings* on page 40 for a detailed description of the prior findings and recommendations.

Summary of CRS' Responses to Findings

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

- (1) **Finding 2024-01:** CRS agreed with the finding but disagreed with the auditor's recommendations that it refund \$1,718 and enhance its controls. CRS believed it had already refunded all costs related to this finding; however, the \$1,718 pertains to costs not associated with the construction manual entry errors, but with Other Direct Costs, Payroll, and Fringe Benefits as stated in the condition of the finding.
- (2) **Finding 2024-02:** CRS agreed with the finding but did not clarify whether they would reimburse the Government.
- (3) **Finding 2024-03:** CRS agreed with the finding but did not clarify whether they would reimburse the Government.

(Continued)

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
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Supporting Transformation for Afghanistan's Recovery

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- (4) **Finding 2024-04:** CRS disagreed with the finding and the auditor's recommendations. CRS believed that the expenditures did not require the approval of the federal agency and that the expenditures were adequately supported.
- (5) **Finding 2024-05:** CRS agreed with the finding and with the recommendation to refund the \$91 overcharged.

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INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Catholic Relief Services
Baltimore, Maryland

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Catholic Relief Services (CRS) and the related notes to the Special Purpose Financial Statement (Statement), with respect to the Cooperative Agreement No. 72030621CA00002 (Cooperative Agreement) awarded by the U.S. Agency for International Development's Mission to Afghanistan (USAID/Afghanistan) to support the Supporting Transformation for Afghanistan's Recovery (STAR) activity, for the period of February 18, 2021, through September 30, 2023.

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of February 18, 2021, through September 30, 2023, in accordance with the terms of the Cooperative Agreement and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Catholic Relief Services, 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 audit opinion.

Basis of Presentation and Accounting

We draw attention to Note 2 and 3 to the Special Purpose Financial Statement, which describes the basis of presentation and the basis of accounting. As described in Note 2 to the Special Purpose Financial Statement, the statement is prepared by Catholic Relief Services on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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 requirements provided by SIGAR. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that it is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities 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 generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards 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 financial statements.
- 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 Catholic Relief Services' 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 financial statements.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 23, 2024 on our consideration of Catholic Relief Services' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of

the Cooperative Agreement, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Catholic Relief Services' internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Catholic Relief Services, the United States Agency for International Development's Mission to Afghanistan, 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. The 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 the United States Congress and 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.

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

Lake Forest, California
December 23, 2024

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
 Awarded by the U. S. Agency for International Development
 in support of an activity entitled
 Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Total</u>	<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
Revenues:						
Cooperative Agreement No.						
72030621CA00002	\$ 28,338,901	\$ 17,421,505	\$ -	\$ -	\$ -	(5)
Total revenues	<u>28,338,901</u>	<u>17,421,505</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred and Fixed Fee:						
Personnel	3,533,599	2,333,633	227	-	227	(A)
Fringe Benefits	1,004,836	585,411	120	-	120	(B)
Allowances	268,303	130,846	-	-	-	
Travel	442,128	398,188	-	19,799	19,799	(C)
Equipment and Supplies	218,402	175,310	-	-	-	
Contractual	13,883,310	11,230,166	-	-	-	
Construction	3,328,881	668,224	180,637	-	180,637	(D)
Other Direct Costs	3,611,823	829,848	1,187	5,663	6,850	(E)
Indirect Cost	<u>2,047,619</u>	<u>1,070,036</u>	<u>32,790</u>	<u>4,533</u>	<u>37,323</u>	(F)
Total Costs incurred	<u>\$ 28,388,901</u>	<u>\$ 17,421,662</u>	<u>214,961</u>	<u>\$ 29,995</u>	<u>\$ 244,956</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ (157)</u>				(7)

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

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
Awarded by the U.S. Agency for International Development
in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

Notes to Special Purpose Financial Statement¹

(1) Background

Founded in 1943, Catholic Relief Services (CRS) is a religious non-profit organization based in the United States. CRS specializes in, among other programming, emergency response and recovery, water security, education, and agriculture. Headquartered in Baltimore, Maryland, Catholic Relief Services eases suffering and provides assistance to people in need, without regard to race, religion or nationality. Overseas, CRS offices are located in the regions of Africa, Asia, Europe, the Middle East and Latin America and the Caribbean.

The United States Agency for International Development's Mission to Afghanistan (USAID/Afghanistan) awarded Catholic Relief Services the Supporting Transformation for Afghanistan's Recovery (STAR) Cooperative Agreement in support of these objectives. The Total Estimated Amount (TEA) of this Cooperative Agreement is \$28,338,901.

USAID issued a Modification of Assistance, Number P007, to Cooperative Agreement No. 72030621CA00002, dated Aug 30, 2022, to extend the Cooperative Agreement period of performance from September 30, 2023, to December 31, 2024, increase the TEA, realign the award budget, revise Program Description, and update Standard Provisions of the award. This Special Purpose Finance Statement reflects the budgeted amounts under this Modification of Assistance Number P007.

(2) Basis of Presentation

The accompanying Special Purpose Financial Statement (Statement) includes costs incurred for the USAID Cooperative Agreement (agreement/award) 72030621CA00002 – Supporting Transformation for Afghanistan's Recovery ("STAR") by Catholic Relief Services, Inc. ("CRS") for the period of February 18, 2021, through September 30, 2023. Because the Statement presents only a selected portion of the operations of Catholic Relief Services (CRS), it is not intended to and does not represent the financial position, changes in net position, or cash flows of CRS. 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 agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, CRS financial statements.

(3) Basis of Accounting

Expenditures reported on the Statement are reported on a cash basis and such expenditures are in accordance with the cost principles of the Uniform Guidance, 2 CFR 200 and the provisions found in the original award and modifications for the USAID Cooperative Agreement (agreement/award) 72030621CA00002 – Supporting Transformation for Afghanistan's Recovery ("STAR").

¹ The Notes to the Special Purpose Financial Statement are the responsibility of CRS.

Catholic Relief Services

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in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

Notes to Special Purpose Financial Statement¹ (Continued)

(4) **Foreign Currency Conversion Method**

The Statement was prepared using CRS' financial statements/ledgers and all expenses paid in foreign currency were converted to USD prior to posting to the financial statements.

(5) **Revenues**

Revenues included in the Statement represent the funds CRS received from USAID for the allowable and eligible costs incurred during the period of original Award and associated Modifications #1, #3, #5, and #7.

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

The costs incurred by budget category reflect actual expenses incurred against the STAR program during the period of the audit (18 February 2021, through 30 September 2023).

(7) **Balance**

Budget Column: The variance presented in the Budget column represents the difference between budgeted revenues and budgeted expenditures. The zero balance indicates that budgeted revenues were equal to budgeted expenditures.

Actual Column: The variance presented in the Actual column represents the difference between actual revenues received and the actual total costs incurred during the audit period. The negative balance indicates that costs exceeded revenues by \$157 due to timing difference between actual cost incurred and the revenue received on September 30, 2023.

(8) **Currency**

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

(9) **Program Status**

The STAR (Supporting Transformation for Afghanistan's Recovery) – is scheduled to finish December 31, 2024, as per modification #7. The current obligated amount is \$28,338,901.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of CRS.

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Notes to Special Purpose Financial Statement¹ (Continued)

(10) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the February 01, 2021, through January 31, 2023, period covered by the SPFS. Management has performed their analysis through December 23, 2024.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of CRS.

(Continued)

Catholic Relief Services

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Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Personnel

CRS reported a total of \$2,333,633 for Personnel for the period of February 18, 2021, to September 30, 2023. During our audit of these costs, we noted three (3) instances in which CRS overcharged payroll costs due to staff calculation errors resulting in questioned costs of \$227. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.

(B) Fringe Benefits

CRS reported a total of \$585,411 for Fringe Benefits for the period of February 18, 2021, to September 30, 2023. During our audit of these costs, we noted nineteen (19) instances in which CRS overcharged fringe benefits costs due to staff calculation errors resulting in questioned costs of \$120. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.

(C) Travel

CRS reported a total of \$398,188 for Travel for the period of February 18, 2021, to September 30, 2023.

During our audit of these costs, we noted the following:

- Seven (7) instances of unsupported or unjustified costs where the Chief of Party did not adhere to the organization's established policies and procedures, resulting in unsupported and unjustified travel-related costs. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.
- Five (5) instances were observed in Travel cost testing in which CRS could not provide the written reports required under its policy to support training costs. Additionally, CRS could not provide records to confirm that training took place or verify the names of the employees that attended the training. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report.
- One (1) instance was observed during travel cost testing in which CRS made payments to vendors without the required authorizing signatures. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total unsupported Travel costs of \$19,799, of which \$16,639 is related to **Finding No. 2024-02** and \$3,160 is related to **Finding No. 2024-03**.

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

Catholic Relief Services

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Notes to Questioned Costs Presented on the Special Purpose Financial Statement² (Continued)

(D) Construction

CRS reported a total of \$668,224 for Construction for the period of February 18, 2021, to September 30, 2023. During our audit of these costs, we noted three (3) instances in which CRS overcharged for construction materials by recording \$183,333 instead of the actual cost of \$2,696. This resulted in ineligible construction costs of \$180,637. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.

(E) Other Direct Cost

CRS reported a total of \$829,848 for Other Direct Costs for the period of February 18, 2021, to September 30, 2023.

During our audit of these costs, we noted the following:

- Two (2) instances in which CRS overcharged guesthouse and office rental charges to the Program by using incorrect lease amounts and allocation percentages. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- One (1) instance of unsupported or unjustified costs where the Chief of Party did not adhere to the organization's established policies and procedures, resulting in unsupported and unjustified other direct costs where a visa invoice was unable to be provided. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.
- Three (3) instances were observed in the testing of Other Direct Costs in which CRS could not provide the written reports required under its policy to support training costs. Additionally, CRS could not provide records to confirm that training took place or verify the names of employees that attended the training. See **Finding No. 2024-03** in the *Schedule of Findings and Questioned Costs* section of this report.
- One (1) instance where four (4) mono solar panels were installed at employees' homes in Afghanistan to supplement household electrical power for remote work purposes. However, there was no approval of the funding agency for these installations. Another one (1) instance, where CRS charged solar panels for leased offices without obtaining written prior approval from USAID/Afghanistan. See **Finding No. 2024-04** in the *Schedule of Findings and Questioned Costs* section of this report.

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

(Continued)

Catholic Relief Services

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Notes to Questioned Costs Presented on the Special Purpose Financial Statement² (Continued)

- One (1) instance in Other Direct Costs testing in which CRS overcharged hawala commission fees to the Program. See **Finding No. 2024-05** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total ineligible Other Direct Costs of \$1,187 and total unsupported Other Direct Costs of \$5,663.

(F) Indirect Costs

CRS reported a total of \$1,070,036 for Indirect Costs for the period of February 18, 2021, through September 30, 2023. The indirect costs associated with questioned costs identified in Notes A through E above resulted in total associated questioned indirect costs of \$37,323 which includes associated unsupported indirect costs of \$4,533 and associated ineligible indirect costs of \$32,790.

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

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Catholic Relief Services
Baltimore, Maryland

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, 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, by Catholic Relief Services (CRS) under Cooperative Agreement No. 72030621CA00002 (Cooperative Agreement) in support of the Supporting Transformation for Afghanistan's Recovery (STAR) activity for the period of February 18, 2021, to September 30, 2023. We have issued our report thereon dated December 23, 2024 with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of February 18, 2021, to September 30, 2023, we considered Catholic Relief Services' internal control over financial reporting (internal control) to determine the 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 Catholic Relief Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Catholic Relief Services' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified five (5) deficiencies in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. Findings 2024-01, 2024-02, 2024-03, 2024-04 and 2024-05 are considered to be significant deficiencies.

Catholic Relief Services' Response to Findings

Catholic Relief Services' response to the findings identified in our audit is included verbatim at the *Appendix A*. Catholic Relief Services' response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control, and the result of that testing, and not to provide an opinion on the effectiveness of Catholic Relief Services' 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 Catholic Relief Services, the United States Agency for International Development's Mission to Afghanistan, 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. The financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Lake Forest, California
December 23, 2024

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Catholic Relief Services
Baltimore, Maryland

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, 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, by Catholic Relief Services (CRS) under Cooperative Agreement No. 72030621CA00002 (Cooperative Agreement) in support of the Supporting Transformation for Afghanistan's Recovery (STAR) activity, for the period of February 18, 2021, to September 30, 2023. We have issued our report thereon dated December 23, 2024 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Catholic Relief Services' Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Cooperative Agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed five (5) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2024-01, 2024-02, 2024-03, 2024-04 and 2024-05.

Catholic Relief Services' Response to Findings

Catholic Relief Services' response to the findings identified in our audit is included verbatim at *Appendix A*. Catholic Relief Services' response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part

of an audit performed in accordance with *Government Auditing Standards* in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Catholic Relief Services, the United States Agency for International Development's Mission to Afghanistan, 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. The financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Conrad LLP

Lake Forest, California
December 23, 2024

(Continued)

Catholic Relief Services

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in support of an activity entitled
Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

Schedule of Findings and Questioned Costs

Finding 2024-01: Overcharges due to manual calculation errors

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

Condition: Conrad tested a combination of 462 out of 9,740 transactions in the Personnel, Fringe Benefits, Construction, and Other Direct Costs categories representing \$434,070 out of a total of \$4,417,116. During our testing to determine the allowability and support adequacy of costs incurred, we noted overcharges to the Program caused by manual calculation or entry errors. As the charges were related to the miscalculation of expenses due to weak controls surrounding manual accounting practices, the costs are ineligible. Please see the table below for detailed observations.

Cost Category	Observation Detail	Questioned Costs	Indirect Costs	Total Costs
Construction	<p>One (1) instance in which CRS overcharged for construction materials by recording \$83,106 instead of the actual cost of \$1,026.</p> <p>CRS disclosed two (2) additional errors associated with the sampled invoice that involved actual costs of \$920 and \$750 which were inaccurately charged to the Program as \$55,227 and \$45,000.</p> <p>The total amount for the entry errors recorded is \$183,333 and the total actual amount that should be recorded is \$2,696, which resulted in total questioned costs of \$180,637.</p> <p>CRS identified these manual entry errors in February 2023, but the reversal of the incorrect entries was not</p>	\$180,637	\$32,515	\$213,152

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Schedule of Findings and Questioned Costs (Continued)

	completed until the Auditors identified this issue during fieldwork in September 2024.			
Other Direct Costs	Two (2) instances in which CRS overcharged guesthouse and office rental charges to the Program by using incorrect lease amounts and allocation percentages resulting in questioned costs of \$1,110.	\$1,110	\$198	\$1,308
Payroll	Three (3) instances in which CRS overcharged payroll costs due to staff calculation errors resulting in questioned costs of \$227.	\$227	\$41	\$268
Fringe Benefits	Nineteen (19) instances in which CRS overcharged food and transportation fringe benefits costs due to staff calculation errors resulting in questioned costs of \$120.	\$120	\$22	\$142
Total Questioned Costs:		\$182,094	\$32,776	\$214,870

Criteria:

CRS Monitoring, Evaluation, Accountability, and Learning (MEAL) policies and procedures, states in part:

“The purpose of these policies and procedures is to establish a systematic and consistently applied set of requirements for the development, conduct, management and utilization of high quality monitoring, evaluation, accountability and learning results...”

*...Country programs will conduct **annual self-assessments** against these practices and develop action plans to address any gaps. Country programs will also be subject to periodic internal audit against the MEAL procedures. If a country program is in any way unable to comply with a specific*

(Continued)

Catholic Relief Services

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Schedule of Findings and Questioned Costs (Continued)

procedure, the Country Representative should ensure that there is proper documentation of the extenuating circumstances (e.g. issues relating to staff security or limited access to field sites) that prevent adherence to the procedure. In the long-term CRS will actively and openly document and share its successes, failures and learning to both internal and external audiences for the ultimate betterment of the lives of the people we serve...

POLICY № 7 - ACCOUNTABILITY TO DONORS AND OTHER STAKEHOLDERS

CRS programming is accountable to its donors and to other stakeholders by meeting donor requirements for MEAL and sharing successes, challenges and lessons learned through the timely delivery of reports and accompanying means of communication.

PROCEDURES

7.1 Integrate donor MEAL requirements into the MEAL system and check on compliance during implementation.

7.2 Communicate progress and evaluation findings to key stakeholders according to their information needs..."

CRS Afghanistan Personnel Manual, states in part:

"8. Benefits – CRS provides money to help staff cover the cost of eating lunch outside their homes. Any staff [sic] person who works a partial month will receive allowances for the days he or she worked. Please find the current amounts of each allowance and the method of prorating (AFN 150 per day is fixed for 22 days a month for food and AFN 150 for transport)."

2 CFR 200.303, Internal Controls, states in part:

"The non-Federal entity must:

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

2 CFR 200.400, Policy Guide, states in part:

The application of these cost principles is based on the fundamental premises that:

(a) The recipient and subrecipient are responsible for the efficient and effective administration of the Federal award through sound management practices..."

Cause: CRS did not properly implement its policies and procedures to ensure adequate management monitoring and the review of accounting entries for cost transactions in Afghanistan, because of manual errors made during the transition to a new Enterprise Resource Planning (ERP) system, and manual calculation errors.

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

Effect: The lack of adequate management monitoring and review governing CRS's manual accounting entries in Afghanistan created an environment in which ineligible costs were charged to the Cooperative Agreement.

Questioned Costs: We identified \$182,094 in ineligible costs and \$32,776 in associated indirect costs, which resulted in \$214,870 in total questioned costs. Please note that during audit fieldwork, once the Auditors identified the entry errors for the Construction costs, CRS reversed \$213,152 in questioned Construction costs. As such, the net amount of \$1,718 is recommended for refund to funding agency.

Recommendation:

- 1) We recommend that CRS refund \$1,718 in ineligible costs to the funding agency.
- 2) We recommend that CRS develop and implement policies and procedures requiring management to closely monitor and review all accounting or cost transaction entries to ensure they are accurate and free from errors.

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-02: Chief of Party did not adhere to established controls, leading to unsupported and unjustified costs

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

Condition: Conrad tested a combination of 133 out of 2,395 transactions in the Travel and Other Direct Costs categories representing \$215,749 out of a total of \$1,228,036. During our testing to determine the allowability and support adequacy of costs incurred, we noted that the Afghanistan Chief of Party (COP) did not adhere to the organization's established policies and procedures and appeared to override internal controls, resulting in unsupported and unjustified travel and other related costs. In particular, all the samples were related to the COP, went unsupported until nearly the end of the audit, and ultimately the evidence that was provided was insufficient to substantiate the validity of expenses.

We observed seven (7) instances of unsupported or unjustified costs in the Travel cost category (referenced as T-XX) and one (1) instance of unsupported costs in the Other Direct Costs category (reference as ODC-XX) all related to the COP and resulting in questioned costs of \$18,287.

See the table below for individual observation detail from Travel and ODC cost categories:

Sample	Observation Detail	Questioned Costs	Indirect Costs	Total Costs
T-03	CRS provided one (1) hotel receipt that only included the COP's name, date, and amount of the charge for \$5,780 for dates 11/02/2021 – 01/08/2022 in Istanbul. However, the receipt did not include adequate detail to support the expense sufficiently, i.e., it did not indicate if it was for accommodation, services or any other goods and services purchased besides accommodation. The receipt did not contain itemized prices of any goods or services, or show the method of payment used. There were no internal expense reports, approved travel request forms, or other sufficient evidence provided. Additionally, the COP claimed residency in Istanbul. CRS did not provide further support for the purpose of the stay or how it related to the program. There was no justification for why the COP needed to stay in a hotel rather than her residence for this extended period.	\$5,780	\$1,032	\$6,812

(Continued)

Catholic Relief Services

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Schedule of Findings and Questioned Costs (Continued)

Sample	Observation Detail	Questioned Costs	Indirect Costs	Total Costs
T-07	<p>Four (4) screenshots were provided as support for this expense billed to the United States government related to COP's travel costs but was unclear if any of these costs were related to the program:</p> <ol style="list-style-type: none">1) A screenshot of what appears to be the COP's payment for lodging in Kazakhstan purchased on 09/02/2021 totaling \$801.57. There was not a lodging receipt from the hotel, information on how long the stay was, travel request, approved travel request form, or any other evidence for the purpose of the trip or how it related to the program.2) A screenshot of what appears to be payment for the COP's lodging in Kazakhstan purchased on 09/02/2021 totaling \$423.99. There was not a lodging receipt from the hotel, information on how long the stay was, travel request, approved travel request form, or any other evidence for the purpose of the trip or how it related to the program. In addition, it appears that the purchase was made in the hotel front office, where a traveler may reasonably expect to obtain hotel invoices and receipts. Finally, purchases from the front office can be other services such as dining, party events, alcohol from the bar, rather than lodging.3) A screenshot of what appears to be a payment made by the COP to a hotel in Dubai categorized as "Real Estate Agents and Manager Rental" on 09/02/2021 for \$585.61. There was not a lodging receipt	\$2,635	\$471	\$3,106

(Continued)

Catholic Relief Services

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Schedule of Findings and Questioned Costs (Continued)

Sample	Observation Detail	Questioned Costs	Indirect Costs	Total Costs
	<p>from the hotel, approved travel request form, or any other evidence for the purpose of the purchase or how this cost relates to the Program.</p> <p>4) A screenshot of a visa entry to Turkey including the COP's name for 90 days valid between August 2021 to February 2022, with a statement typed on the document "\$50 + 1.50 = \$51.50 paid on credit card ending in XXXX¹". There was no additional evidence provided for the purpose of the expense or how it related to the program.</p> <p>The four (4) screenshots totaled \$1,863 and did not tie to the amount of \$2,635 charged to the Program, which was coded as M&IE expenses on the general ledger.</p>			
T-08	<p>The expense was for the COP's stay in a hotel in Beyoğlu, Turkey between 01/15/2023 – 02/10/2023 (26 days). Only an employee expense report stating visa processing as the purpose of the trip and proof of payment were provided. However, the COP claimed residency in Istanbul, which is only a 12-minute drive from Beyoğlu. There was no justification for why the COP needed to stay in a hotel rather than her residency for this extended period for processing a visa.</p> <p>CRS did not provide supporting evidence to support the purpose of the hotel stay. There were no internal expense reports, approved travel</p>	\$2,575	\$460	\$3,035

¹ We did not include the last four digit due to protection of Personal Identification Information.

(Continued)

Catholic Relief Services

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Schedule of Findings and Questioned Costs (Continued)

Sample	Observation Detail	Questioned Costs	Indirect Costs	Total Costs
	request forms, hotel receipts, or other sufficient evidence provided.			
T-09	<p>CRS provided one (1) screenshot of what appears to be a statement for the COP's hotel reward program with the name of a Dubai hotel listed along with three charges: 09/22/2021 - \$43.57, 09/28/2021 - \$1,456.71, and 10/08/2021 - \$825.03, totaling \$2,325.</p> <p>However, the screenshot does not include adequate detail to support the expense sufficiently, i.e., it does not indicate what goods or services were charged (e.g., lodging, meals, etc.), the itemized prices of goods or services, methods of payment, applicable dates, etc.</p> <p>CRS could not provide hotel receipts, internal expense reports, or other sufficient evidence to support the purpose of this trip or how it relates to the program.</p>	\$2,325	\$415	\$2,740
T-14	The expense was for 26 days of Meals and Incidentals in Beyoğlu, Turkey, for the COP between 01/15/2023 – 02/10/2023. Only an email with a snip of the COP's expense report stating visa processing as the purpose of the expense was provided. However, the COP claimed residency in Istanbul, which is a 12-minute drive from Beyoğlu. There was no justification for why the COP needed to stay in a hotel for this extended period instead of her residence for the purpose of processing a visa.	\$1,800	\$321	\$2,121
T-24	The expense represented the COP's airfare to Dubai for the purpose of meeting with the Donor. Per email from the Donor, this was not a mandatory meeting to be attended. A travel	\$1,010	\$181	\$1,191

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

Sample	Observation Detail	Questioned Costs	Indirect Costs	Total Costs
	request form, meeting agenda and attendees list, and attendance sheet to support meeting participants, were not provided.			
T-38	The expense represented the COP's airfare for leaving the country due to an expiring visa. The itinerary did not have a flight class. Additionally, there are no internal expense reports or approved travel request forms to support the charges.	\$514	\$92	\$606
ODC-17	CRS could not provide a receipt for a \$1,648 charge for a 12-month Afghan visa fee for the COP that was applied for in Dubai. For other samples tested, which were for different employees, the visa fees were significantly smaller, ranging between \$346 up to \$900. We also checked the Dubai Afghan embassy website and found that a regular 12-month visa should only cost \$800.	\$1,648	\$294	\$1,942
Total Costs:		\$18,287	\$3,266	\$21,553

Criteria:

The CRS Employee Handbook, states in part:

"Sec. 10.3 Travel Expenses:

"...written approval of the Travel Schedule by the concerned supervisor and the Head of Office must be obtained prior to the commencement of travel..."

...

The International Travel Expense Voucher as well as the Local Travel Expense Vouchers (TEV) shall be verified by Finance and approved by the HoO/HoP/CR...

...

No travel expense shall be approved for [sic] unauthorized trip."

The CRS Policy on Travel, states in part:

"Outside the United States, travel arrangements within a country, region, or continent are normally made and ticketed by the Country Office(s) using its local travel agent."

(Continued)

Catholic Relief Services

Cooperative Agreement No. 72030621CA00002
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Supporting Transformation for Afghanistan's Recovery

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Schedule of Findings and Questioned Costs (Continued)

2 CFR 200.303, Internal Controls, states in part:

"The non-Federal entity must:

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

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

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

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

(c) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity..."

(g) be adequately documented..."

Cause: CRS lacked adequate management oversight to ensure travel and other related expenses for the COP were appropriate, or to ensure management cannot override internal controls. Additionally, inadequate evidence was submitted to support and justify expenses incurred before reimbursement.

Effect: As a result of management override of controls, evidenced by a pattern of individual non-compliance with established protocols, unsupported and unjustified costs were charged to the federal award. Management override of controls can lead to bypassing critical steps and controls that are in place to ensure the accuracy of financial reporting, the mitigation of risk, and ultimately may result in fraud, waste, and abuse and overcharge to the funding agency.

Questioned Costs: We identified \$18,287 in unsupported costs and \$3,266 in associated indirect costs, which resulted in \$21,553 in total questioned costs.

Recommendation:

- 1) We recommend that CRS provide sufficient documentation to support the costs incurred or return \$21,553 in unsupported costs to the funding agency.
- 2) We recommend that CRS develop and implement policies and procedures to ensure management performs a detailed review of expenses related to travel and other related expenses for senior executives, such as the COP, that cannot be overridden and that require adequate support to be submitted to justify incurred expenses before reimbursement.

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-03: Non-Compliance with established controls related to training leading to questioned costs

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

Condition: Conrad tested a combination of 133 out of 2,395 transactions in the Travel and Other Direct Costs categories representing \$215,749 out of a total of \$1,228,036. During our testing to determine the allowability and support adequacy of costs incurred, we noted that CRS management did not perform adequate oversight to ensure adherence to its established policies and procedures related to training. We noted the following:

- Six (6) instances were observed in Travel cost testing and three (3) instances were observed in the testing of Other Direct Costs where participants incurred expenses related to attending training events. In these cases, CRS was unable to provide documentation to support participant training feedback and written reports submitted to the supervisor and HR as required by CRS policy to confirm training was attended by staff. Additionally, CRS could not provide records to confirm that training took place or to verify the names of employees that attended the training, such as a sign-in sheet.

These instances resulted in questioned costs of \$3,913, of which \$3,160 was related to Travel costs and \$753 was related to Other Direct Costs.

The CRS Employee Handbook, states in part:

"Sec. 5.01.01 Training & Professional Development:

"Upon successful completion of the training event, each participant is required to give feedback of the training and submit a written report to their supervisor and HR within 7 days and supplement the same with a presentation to the rest of the colleagues in the office."

Sec. 10.3 Travel Expenses:

"...written approval of the Travel Schedule by the concerned supervisor and the Head of Office must be obtained prior to the commencement of travel..."

The International Travel Expense Voucher as well as the Local Travel Expense Vouchers (TEV) shall be verified by Finance and approved by the HoO/HoP/CR...

"No travel expense shall be approved for [sic] unauthorized trip."

2 CFR 200.303, Internal Controls, states in part:

"The non-Federal entity must:

(a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

compliance with Federal statutes, regulations, and the terms and conditions of the Federal award...

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:

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

(c) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity..."

Cause: CRS established policy controls governing travel and training expenses but did not implement sufficient governance via monitoring or oversight to ensure employee compliance.

Effect: Insufficient governance and non-compliance with established policies and procedures created an environment in which unsupported costs were charged to the federal award, thereby increasing the risk of overcharge to the funding agency.

Questioned Costs: We identified \$3,160 in unsupported Travel costs with \$552 in associated indirect costs. We also identified \$753 in unsupported Other Direct Costs with \$132 in associated indirect costs. In total, we identified \$3,913 in unsupported costs and \$684 in associated indirect costs, which resulted in \$4,597 in total questioned costs.

Recommendation:

- 1) We recommend CRS provide sufficient documentation to support that the costs incurred were in accordance with CRS established policies or return \$4,597 in questioned costs to the funding agency.
- 2) We recommend that CRS develop and implement policies and procedures to ensure management performs detailed review surrounding the approval of travel related expenses for participant trainings are in accordance with CRS established policies and procedures.

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-04: Costs incurred without funding agency approval

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

Condition: Conrad tested 67 of 1,308 transactions in the Other Direct Costs category representing \$131,347 in costs out of a total of \$829,848. During our testing to determine the allowability and support for the adequacy of costs incurred, we noted that solar panels were acquired and installed at local national employees' homes without funding agency approval. Solar panels that are purchased for reasons unrelated to Program objectives are considered general purpose equipment, which requires funding agency approval prior to acquisition. Furthermore, the costs of goods and services for the personal use of the non-Federal entity's employees are considered unallowable.

- We noted one (1) instance where 10 mono solar panels costing \$6,234 were installed at 10 different, local national employees' homes to supplement household electrical power for remote work purposes. Of the 10 solar panels, four (4) were allocated to the Program totaling \$2,494. We noted the following:
 - There was no approval from the funding agency for these installations.
 - In email correspondence among CRS employees, it was stated the solar panels could support three (3) laptops, seven (7) bulbs, and five (5) mobile chargers for up to nine (9) hours.
 - There was no evidence that the solar panels were not for personal use.
 - There was no evidence they did not benefit the employee's family.
 - CRS did not provide evidence to support communication to employees that the solar panels were not for personal or family use.
 - One (1) of the employees purchased the solar panel at separation of employment. CRS provided excel entry demonstrating a reversal of the solar panel amount in October 2023. However, since the reversal was outside our audit period, we cannot verify if the reversal was reported to the funding agency.
 - It was unclear whether these employees were working full-time remotely or not. During the period when the employees were in possession of the solar panels, we found two (2) employees had been included as part of the allocation for office expenses and utilities because they were physically present in the Afghanistan field office. If these employees were working full-time remotely, then they should not also have been included as part of the office utilities allocation costs that were charged to the Program.
- In another instance, CRS charged the Program for the cost of solar panels for a leased office without obtaining written prior approval from USAID/Afghanistan. The total cost of the solar panels was \$768.

These instances resulted in questioned costs of \$3,262.

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

Criteria:

2 CFR 200.445, Goods or services for personal use, states in part:

*"(a) Costs of goods or services for personal use of the non-Federal entity's employees are unallowable regardless of whether the cost is reported as taxable income to the employees.
(b) Housing costs (e.g., depreciation, maintenance, utilities, furnishings, rent), housing allowances and personal living expenses are only allowable as direct costs regardless of whether reported as taxable income to the employees. In addition, to be allowable direct costs must be approved in advance by a Federal awarding agency."*

2 CFR 200.439,(b), Equipment and other capital expenditures, states in part:

*(b)The following rules of allowability must apply to equipment and other capital expenditures:
(1) Capital expenditures for general purpose equipment, buildings, and land are unallowable as direct charges, except with the prior written approval of the Federal agency or pass-through entity..."*

Cooperative Agreement, Attachment C – Standard Provisions, states in part:

*"M22. LIMITING CONSTRUCTION ACTIVITIES (AUGUST 2013)
a) Construction is not eligible for reimbursement under this award...
b) Construction means —construction, alteration, or repair (including dredging and excavation) of buildings, structures, or other real property and includes, without limitation, improvements, renovation, alteration and refurbishment. The term includes, without limitation, roads, power plants, buildings, bridges, water treatment facilities, and vertical structures.
c) Agreement Officers will not approve any sub awards or procurements by recipients for construction activities that are not listed in paragraph d) below. USAID will reimburse allowable costs for only the construction activities listed in this provision not to exceed the amount specified in the construction line item of the award budget. The recipient must receive prior written approval from the AO to transfer funds allotted for construction activities to other cost categories, or vice versa."*

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..."*

Cause: Due to administrative oversight, CRS did not seek the USAID/Afghanistan's approval for the installation of solar panels in employees' homes or on a leased office. CRS did not believe the costs required approval of the funding agency.

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

Effect: Since CRS did not obtain prior approval for the costs of the solar panels, the US government may have paid for items that benefitted staff and non-program recipients that were not project related. As a result, unsupported costs in the amount of \$3,262 were charged to the Cooperative Agreement.

Questioned Costs: We identified \$3,262 in unsupported costs and \$583 in associated indirect costs, which resulted in \$3,845 in total questioned costs.

Recommendation:

- 1) We recommend that CRS provide additional evidence to demonstrate that the costs in question were allowable or return \$3,845 in ineligible costs to the funding agency.
- 2) We recommend that CRS develop policies and procedures to ensure costs that can potentially benefit personal use, employees' family, as well as leased office space are approved by the funding agency.

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-05: Excess costs were charged to the Program.

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

Condition: Conrad tested a combined 67 out of 1,308 transactions in Other Direct Costs representing \$131,347 out of a total of \$829,848. During our testing to determine the allowability and to support adequacy of costs incurred, we noted one (1) instance in Other Direct Costs testing in which CRS overcharged hawala commission fees to the Program. Hawala brokers provide money transfer services and are a common method of payment in Afghanistan. CRS made a payment of \$2,018 to the hawala via bank transfer but charged \$2,095 to the Program resulting in an overcharge of approximately \$77.

CRS attributed this discrepancy to the differences between the hawala's exchange rate and the exchange rate used by CRS. It was unclear why an exchange rate was applied to payment when CRS paid the Hawala in USD.

This resulted in questioned costs of \$77.

Criteria:

CRS Note 4 of the Special Purpose Financial Statement, Foreign Currency Conversion Method, states:

"The Statement was prepared using CRS' financial statements/ledgers and all expenses paid in foreign currency were converted to USD prior to posting to the financial statements."

2 CFR 200.400, Policy guide, states in part:

"The application of these cost principles is based on the fundamental premises that:

- (a) The non-Federal entity is responsible for the efficient and effective administration of the Federal award through the application of sound management practices..."*

Cause: CRS Afghanistan office accounting staff did not know when to properly apply an exchange rate because all transactions, whether paid in USD or Afghanis, required conversion during month-end closing and financial reporting. The auditors attributed this error to lack of adequate training for Afghanistan accounting staff on the topic of foreign currency conversion.

Effect: As a result, \$77 in ineligible costs were charged to the Cooperative Agreement.

(Continued)

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Schedule of Findings and Questioned Costs (Continued)

Questioned Costs: We identified \$77 in overcharged costs and \$14 in associated indirect costs, which resulted in \$91 in total questioned costs.

Recommendation:

- 1) We recommend CRS provide additional evidence to demonstrate that the costs in question were allowable or return \$91 in ineligible costs to the funding agency.
- 2) We recommend CRS provide adequate training to Afghanistan accounting staff to ensure they understand when transactions were paid in USD, no conversion should be applied and the amount paid in USD should be recorded and charged to the Program.

(Continued)

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Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from CRS, SIGAR, and USAID/Afghanistan pertaining to Cooperative Agreement activities under this audit. We identified three (3) prior audit reports which contained thirteen (13) findings and associated recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures, including discussion with CRS's management, and performed testing of similar activities during our audit. We concluded that CRS had taken adequate corrective action on nine (9) of the thirteen (13) prior findings and associated recommendations. CRS did not take adequate corrective action on four (4) of the prior findings, which were repeated under this audit. We have summarized the results of our procedures below:

1. **Report: Catholic Relief Services – Internal Audit Report 8/5/2021**

Finding 1: Bank reconciliations should be prepared timely and accurately. Bank signatories needed updating.

Status: For the current engagement, Conrad reviewed Bank Reconciliations for three different months for all Afghan bank accounts, and this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

Finding 2: Complete documentation retained in soft copies according to policy requirements, and some reclassification journal entries were unsupported. As a result, there was increased risk for errors and fraud leading to potential loss of CRS assets. More frequent unannounced reviews of financial transactions should be conducted.

Status: For the current Engagement, Conrad reviewed CRS' general ledger and tested transactions which involved reclassification journal entries that resulted in more than the USD amount paid per invoice. This issue is described in **Finding 2024-01**. Conrad concluded that adequate corrective action was not taken with respect to this matter.

Finding 3: The payroll process was managed efficiently but there were some issues with accruing for bonus payments in which benefits were not accrued monthly but charged to active projects in the periods of payment as well as issues with timesheet management.

Status: For the current Engagement, Conrad reviewed CRS' general ledger and tested transactions which involved erroneous calculations in staff payroll accruals which led to an overcharge. This issue is described in **Finding 2024-01**. Conrad concluded that adequate corrective action was not taken with respect to this matter.

Finding 4: Office occupancy measurements should be approved by the Country Representative. Moreover, vehicle log sheet signatures and guesthouse documentation, including daily occupancy rate calculations and related approvals, and visitor tracking sheets needed improvement.

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Status of Prior Audit Findings (Continued)

Status: For the current engagement, Conrad reviewed the general ledger and tested samples related to vehicle log sheets and guesthouse documentation. Based on our review, this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

Finding 5: Security Focal Points' roles and responsibilities were not formally documented. Moreover, security-related documents (e.g., office evacuation plans), information and dissemination needed improvement as the security-related documentation contained outdated information and key employees were not aware of current security protocols.

Status: For the current engagement, Conrad reviewed the general ledger and did not identify any security related transactions charged to the program. Based on our review, this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

Finding 6: The process for the review and documentation of procurement, consultancy, and due diligence activities could be improved.

Status: For the current engagement, Conrad reviewed the general ledger and tested transactions which involved the requirement to follow all procurement policies. This issue is described in **Finding 2024-03**. Conrad concluded that adequate corrective action was not taken with respect to this matter.

Finding 7: Improvements were needed in accounting for in-kind donations, consistency in financial reporting, and filing of program documents.

Status: For the current engagement, Conrad reviewed the general ledger and did not note any in-kind donations. Based on our review, this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

2. **Report: Catholic Relief Services– United States Conference of Catholic Bishops and Affiliates - Consolidated Financial Statements, Schedule of Expenditures of Federal Awards, Indirect Cost Rate Calculation, and Reports Required by Government Auditing Standards and the Uniform Guidance Years ended September 30, 2022 and 2021**

Finding 2022-001: During the fiscal year 2020, Catholic Relief Service – United States Conference of Catholic Bishop and Affiliates (CRS) began implementation of a new global accounting system. This implementation has taken significant resources to transition all country offices and ensure compliance with the new policies and procedures related to implementation. During our financial statement audit, the auditors performed audit procedures on a selection of

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Status of Prior Audit Findings (Continued)

general ledger accounts noting CRS had not performed complete reconciliations for several material accounts that resulted in additional testing and additional reconciliation procedures.

Status: For the current engagement, Conrad reviewed the general ledger and tested construction transactions, which involved the reclassification of journal entries. This issue is described in **Finding 2024-01**. Conrad concluded that adequate corrective action was not taken with respect to this matter.

Finding 2022-002: In response to the Covid-19 pandemic and resulting 'work-at-home' of CRS headquarters employees, CRS authorized an employee to print manual checks from their home. CRS continued with this process until January 2023. While CRS has other individuals who are primarily responsible for key aspects of the check disbursement process, it was determined, through interviews and documentation of the disbursement process, that the individual with the check stock could have obligated CRS to incorrect or fraudulent payments with the cash disbursement process established during the COVID-19 pandemic. Although CRS does not process a significant number of monthly manual checks from the headquarters disbursement account, modifications in internal control to address "work-at-home" requirements resulted in this employee having inappropriate level of access and authority over that specific disbursement process.

Status: For the current engagement, Conrad reviewed CRS's general ledger and tested personnel transaction samples for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

Finding 2022-003: During the auditors' testing of the procurement, suspension and debarment compliance requirements, the auditors identified four (4) procurement samples out of a total of 40 procurement samples tested wherein management was unable to provide supporting documentation whether the suspension and debarment checks were performed prior to entering into contracts with the vendors. For two (2) of the four (4) procurement samples, CRS had previously contracted with the vendors and performed the suspension and debarment checks prior to those contracts. However, management was not able to provide evidence that they performed an updated suspension or debarment check when entering the new covered transition, as required. Management subsequently checked that none of the vendors were suspended or debarred. However, the internal controls in place were not functioning as intended to ensure that procurement files are maintained, and suspension and debarment checks are performed prior to entering a new covered transaction.

Status: For the current engagement, Conrad reviewed CRS' general ledger and tested transaction samples which required vetting of vendors for the audit period. Based on Conrad's

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Status of Prior Audit Findings (Continued)

testing, this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

Finding 2022-004: Testing of the period of performance compliance requirement was performed by examining whether the expenses selected specifically for grants that began or ended during the fiscal year 2022 were incurred within the proper period of performance of the award. The total amount of 25 expense items selected for testing was \$194,527 out of the total population of \$10,470,570. Of the 25 samples selected, one expense in the amount of \$1,029 was incurred after the performance period, resulting in questioned costs. The auditor also performed specific period of performance procedures on the nine (9) grant awards with grant period end date prior to fiscal year 2022 that had expenses charged during the year ended September 30, 2022. The total amount of expenditures for the nine (9) grant awards selected for testing was \$1,311,595. Of the nine grant awards selected, the auditor noted that expenses were either charged and/or reclassified to two grants that were already expired prior to the fiscal year 2022. One expense in the amount of \$130,610 was reclassified to an unexpired grant within the fiscal year. Another expense in the amount of \$100,382 represented the overspending of an expired grant reclassified in the prior fiscal year 2021 and inadvertently reversed back during the current fiscal year 2022. The auditor determined that there was no impact to financial reporting to the donor for the expense of \$100,382 as it was not claimed, but it should not have been included in the schedule of expenditures of federal awards for the year ended September 30, 2022.

Status: For the current engagement, Conrad reviewed CRS's general ledger and transactions tested were all during the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

3. **Report: Catholic Relief Services– United States Conference of Catholic Bishops and Affiliates - Consolidated Financial Statements, Schedule of Expenditures of Federal Awards, Indirect Cost Rate Calculation, and Reports Required by Government Auditing Standards and the Uniform Guidance Years ended September 30, 2023 and 2022**

Finding 2023-001: During the auditor's financial statement audit, the auditors performed audit procedures on various material general ledger accounts. Based on the testing performed, CRS had not completed reconciliations to an adequate level of detail in some cases for prepayments, accrued expenses, donated commodities, and program receivables. This condition resulted in additional detailed testing by the auditor and further reconciliation procedures on the part of management.

Status: For the current engagement, Conrad reviewed CRS's general ledger and tested bank reconciliations for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

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Status of Prior Audit Findings (Continued)

Finding 2023-002: During the auditor's testing of the procurement, suspension, and debarment compliance requirements, they identified one procurement sample out of a total of six procurement samples tested wherein management was unable to provide evidence that the suspension and debarment check was performed prior to entering into contract with the vendor. Management subsequently determined that the vendor was not suspended or debarred.

Status: For the current engagement, Conrad reviewed CRS' general ledger and tested transaction samples which required vetting of vendors for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that CRS has taken adequate corrective action on this finding.

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CRS' Response to Audit Findings

CRS provided management comments in a document attached to an e-mail to Conrad dated December 16, 2024. The responses have been inserted verbatim as presented below.

Finding 2024-01:

Data entry error: \$180k

The error noted in the auditors' findings occurred when entering the purchase cost of construction materials into CRS' Supply Chain System. The error resulted in an inflated cost of the materials in grant expenses. CRS/Afghanistan' Finance and Supply Chain Departments identified the error through the regular review processes and notified the technical team for resolution. Accordingly, CRS has reversed the gross purchase cost, which was \$183,332.87 consisting of three payments, \$44,999.92, \$55,227.18 and \$83,105.77. The corresponding NICRA of \$32,743.25 has been taken out of the grant expenditures along with the reversal of the purchase cost. CRS provided to the auditors the detail correcting entries and reconciliation of grant expenses with the approved SF-425 of September 2024 as evidence. CRS has fully reimbursed the grant for the error caused by the manual data entry together with the associated NICRA. Therefore, the auditors' recommendation to refund an additional \$1,718 is already addressed and does not require further action.

Moreover, CRS has systems and processes in place to review and monitor grant expenditures enabling proactive management actions necessary to mitigate the risk of error and overspending. The processes involve the coordinated effort of program, finance, supply chain and other staff members of operations department. Financial transactions are reviewed and approved following the authority matrix of CRS/Afghanistan. The financial system is designed with embedded internal controls segregating the role of data entry, review, and approval responsibilities. Grant expenditures are reviewed by the Finance Department, Program Managers and Senior Leadership of the Country Program regularly. The Country Program's team takes relevant corrective actions pertinent to the errors and issues identified promptly in coordination with the Region and the HQ, as required.

Finding 2024-02:

Management accepts the finding as presented. We acknowledge the issue and its potential impact. Corrective actions will be implemented to address the root cause and prevent recurrence.

Finding 2024-03:

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CRS' Response to Audit Findings (Continued)

Management accepts the finding as presented. We acknowledge the issue and its potential impact. Corrective actions will be implemented to address the root cause and prevent recurrence.

Finding 2024-04:

Solar Panels:

CRS disagrees with the auditors' findings and recommendations.

The mini solar panels were purchased by the decision of CRS/Afghanistan management considering the working condition of employees based in Kabul city. As explained to the auditors during meetings and in the submission of the documentation regarding the solar panels, the necessity to work from home came about because of Taliban decrees prohibiting female staff from working in NGO offices. During this time, the CRS policy was for all staff to work from home. The Country Program's management assessed the market and evaluated the possible cost-effective alternatives to address the need. CRS/Afghanistan purchased the solar panels in adherence with the regular procurement policies and procedures of the organization. The mini solar panels are included in the inventory records of the CRS/Afghanistan. The Country Representative of CRS/Afghanistan informed employees in writing that the panels are provided for work purposes. Employees are required to sign a handover document making them accountable for misuse, loss or damage to the properties in their custody. The solar panels were under CRS ownership and remained in the Country Program's inventory records. CRS has shared with the auditors the inventory records and the copy of handover documents for evidence. Regarding the issue of personal use, if the panels were indeed used for personal use, this did not incur any additional costs to USAID. Regarding the solar panels in the leased office, these are part of CRS' inventory. The inventory record was shared with the auditors. CRS explained that when CRS changes facilities, the solar panels are removed and taken to the new leased office space. These panels are recovered by the Country Program when rent agreement or when the lease term expires. Solar panels are a much more cost-effective method to generate power than using fossil-fuel powered generators which produce CO2 emissions and generate a lot of noise which neighbors can object to; this noise would also raise the security profile of the CRS leased office possibly compromising CRS' security posture in an environment in which CRS strives to have a low profile.

CRS also understands that the unit cost of the solar panels was below the threshold of \$5,000 per unit cost for equipment purchases requiring prior USAID approval. Hence, CRS believes that the purchase of the panels did not require the donor's prior approval.

(Continued)

Catholic Relief Services

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Supporting Transformation for Afghanistan's Recovery

For the Period of February 18, 2021, through September 30, 2023

CRS' Response to Audit Findings (Continued)

Finding 2024-05:

Management accepts the finding as presented. We acknowledge the issue and its potential impact. Corrective actions will be implemented to address the root cause and prevent recurrence. The questioned cost of \$91.00 will be reversed.

(Continued)

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Auditor's Rebuttal to CRS' Responses to Audit Findings

Catholic Relief Services (CRS) agreed with the questioned costs for Finding 2024-02, Finding 2024-03, and Finding 2024-05; disagreed with a portion of questioned costs for Finding 2024-01, and disagreed with the questioned costs for Finding 2024-04. The Auditor's rebuttals to CRS' responses are presented below:

(1) Finding 2024-01:

CRS stated that its Finance and Supply Chain departments identified the construction overcharge error through its regular review processes and that the charges were accordingly reversed. Due to the reversal of the construction charges, CRS believed that no further refund was required. Additionally, CRS indicated that its monitoring and review controls are robust and enable management to mitigate the risk of error and overspending.

Auditor's Rebuttal:

As noted in the finding, CRS asserted that it identified the construction related error in the amount of \$180,637 in February 2023. However, the initiation of the reimbursement to the federal agency did not begin until the auditor brought the matter to attention during the audit. As a result of the auditor's inquiry, CRS initiated the reimbursement and provided the subsequent SF-425 Federal Financial Report showing the charges were reversed in September 2024, over a year and a half after CRS first identified the issue. The remaining questioned costs of \$1,817 that are recommended for reimbursement represent the additional overcharges noted in the finding for Other Direct Costs, Payroll, and Fringe Benefits cost categories, rather than the construction overcharge that was refunded. Consequently, the auditor's recommendations are unchanged.

(2) Finding 2024-02:

Management accepted the finding as presented. Therefore, no rebuttal is necessary.

(3) Finding 2024-03:

Management accepted the finding as presented. Therefore, no rebuttal is necessary.

(4) Finding 2024-04:

CRS asserted that the purchase of the solar panels was in line with its procurement policy and inventory practices and that the purchase did not require federal agency approval.

Auditor's Rebuttal:

CRS did not seek the approval of the federal agency as required for the acquisition of general-purpose equipment, which has no purchase amount threshold that triggers the requirement. CRS did not ensure appropriate controls were in place to prevent the equipment from being in personal use which is unallowable according to the Federal regulations. Although an email was provided in which a manager stated the equipment was for work purposes, there was no evidence that the message was delivered to the employees receiving the equipment, nor was there a policy provided demonstrating control over this area of concern. Finally, we had inquired CRS several

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CRS' Response to Audit Findings (Continued)

times that during the period when the employees were in possession of the solar panels, we found two (2) employees had been included as part of the allocation for office expenses and utilities because they were physically present in the Afghanistan field office. If these employees were working full-time remotely, then they should not also have been included as part of the office utilities allocation costs that were charged to the Program. CRS never provided a response to our inquiry. Consequently, the auditor's recommendations are unchanged.

(5) Finding 2024-05:

Management accepted the finding as presented. Therefore, no rebuttal is necessary.

(Continued)

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- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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SIGAR's Mission

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