

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 16-6 Financial Audit

USAID's Improving Livelihoods and Governance through Natural Resource Management in Afghanistan Project: Audit of Costs Incurred by the Wildlife Conservation Society

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



SIGAR 16-6-FA/ILGNRM Project

DECEMBER
2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On April 22, 2010, the U.S. Agency for International Development issued a 3-year, \$8 million cooperative agreement to the Wildlife Conservation Society (WCS) to support the Improving Livelihoods and Governance through Natural Resource Management in Afghanistan project. The project was intended to encourage community development by training Afghans in sustainable natural resource management in Bamyan and Wakhan, and strengthening ties with provincial and national government departments. After eight modifications, the period of performance was extended from April 9, 2013, to December 30, 2014, and program funding was increased to \$14 million.

SIGAR's financial audit, performed by Davis and Associates Certified Public Accountants, PLLC (Davis), reviewed \$4,641,256 in expenditures charged to the cooperative agreement between July 1, 2013, and December 30, 2014. The audit objectives were to (1) identify and report on significant deficiencies or material weaknesses in WCS's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether WCS has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of WCS's Special Purpose Financial Statement. See Davis's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, we oversaw the audit and reviewed its results. Our review disclosed no instances where Davis did not comply, in all material respects, with U.S. generally accepted government auditing standards.

December 2015

USAID's Improving Livelihoods and Governance through Natural Resource Management in Afghanistan Project: Audit of Costs Incurred by the Wildlife Conservation Society

SIGAR 16-6-FA

WHAT THE AUDIT FOUND

Davis and Associates Certified Public Accountants, PLLC (Davis) identified one material weakness in the Wildlife Conservation Society's (WCS) internal controls and one instance of material noncompliance with the terms and conditions of the cooperative agreement. These two accounting deficiencies resulted from the same finding. Specifically, Davis identified that outside consultants were paid without being required to submit documentation to support the services provided. Additionally, WCS did not require these consultants to submit timesheets or other substantiating documentation to keep track of their work on the project. Therefore, Davis questioned the full amount of consultant labor charged to the project.

As a result of the internal control deficiency and instance of noncompliance, Davis identified \$1,148,573 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Davis did not identify any ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Payments to Consultants	\$0	\$1,148,573	\$1,148,573
Totals	\$0	\$1,148,573	\$1,148,573

Davis identified one prior review pertinent to WCS's financial performance under the cooperative agreement. In July 2014, the U.S. Agency for International Development (USAID) Office of Inspector General issued an audit of WCS's incurred costs that had two findings related to the Special Purpose Financial Statement. Specifically, WCS did not keep accurate timesheets for all their employees working under the cooperative agreement. Additionally, WCS charged the salaries of some U.S.-based employees as direct labor costs instead of indirect costs. Davis followed up these findings and concluded that WCS had taken adequate corrective action to address them.

Davis issued a modified opinion on WCS's Special Purpose Financial Statement due to unsupported program costs.

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, \$1,148,573 in total questioned costs identified in the report.
2. Advise WCS to address the report's internal control finding.
3. Advise WCS to address the report's noncompliance finding.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

December 7, 2015

The Honorable Gayle E. Smith
Administrator, U.S. Agency for International Development

Mr. Herbert B. Smith
USAID Mission Director for Afghanistan

We contracted with Davis and Associates Certified Public Accountants, PLLC (Davis) to audit the costs incurred by the Wildlife Conservation Society (WCS) under a U.S. Agency for International Development (USAID) cooperative agreement to support the Improving Livelihoods and Governance through Natural Resource Management in Afghanistan project.¹ Davis's audit covered \$4,641,256 in total costs charged to the cooperative agreement from July 1, 2013, through December 30, 2014. Our contract with Davis 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, and recover, as appropriate, \$1,148,573 in total questioned costs identified in the report.**
- 2. Advise WCS to address the report's internal control finding.**
- 3. Advise WCS to address the report's noncompliance finding.**

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

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-048)

¹ USAID awarded cooperative agreement number 306-A-00-10-00516 to WCS to support the Improving Livelihoods and Governance through Natural Resource Management in Afghanistan project, which was intended to encourage community development by training Afghans in sustainable natural resource management in Bamyán and Wakhan, and strengthening ties with provincial and national government departments.

DAVIS AND ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS, PLLC

FINANCIAL AUDIT

OF

COSTS INCURRED BY WILDLIFE CONSERVATION SOCIETY (WCS) UNDER THE COOPERATIVE
AGREEMENT 306-A-00-10-00516 IMPROVING LIVELIHOODS AND GOVERNANCE THROUGH
RESOURCE MANAGEMENT IN AFGHANISTAN PERIOD JULY 1, 2013 THROUGH DECEMBER 30,
2014

TABLE OF CONTENTS

Transmittal Letter..... 2

Executive Summary 3

 Background..... 3

 Work Performed..... 3

 Objectives Defined by SIGAR..... 4

 Summary of Audit Results..... 6

Special Purpose Financial Statement 7

Notes to the Special Purpose Financial Statement..... 8

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement..... 11

Independent Auditor’s Report on the Special Purpose Financial Statement 12

Independent Auditor’s Report on Internal Control 14

Independent Auditor’s Report on Compliance 16

Status of Prior Audit Findings 18

Detailed Audit Findings 20

Appendix A – WCS Management Response 22

Appendix B – Auditor Further Response..... 24

October 16, 2015

TRANSMITTAL LETTER

To: To the President, Wildlife Conservation Society (WCS)
2300 Southern Boulevard
Bronx, NY 10460

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

From: Davis and Associates Certified Public Accountants, PLLC

Subject: Financial Audit of Costs Incurred by Wildlife Conservation Society (WCS) under the
Cooperative Agreement 306-A-00-10-00516 Improving Livelihoods and Governance through
Resource Management in Afghanistan, for the period July 1, 2013 through December 30, 2014

This letter transmits the final audit report of the subject effort. We issued a modified opinion on the fairness of the presentation of the Special Purpose Financial Statement. Our audit disclosed \$1,148,573 of costs that were required to be questioned in the Special Purpose Financial Statement. Our audit detected one instance of material noncompliance and one deficiency in internal controls; we consider this deficiency in internal controls to be a material weakness.

Davis & Associates

Davis and Associates Certified Public Accountants, PLLC

211 North Union Street

Suite 100

Alexandria, Virginia 22314

EXECUTIVE SUMMARY

Background

The U.S. Agency for International Development (USAID) signed an \$8 million cooperative agreement number 306-A-00-10-00516 with Wildlife Conservation Society (WCS) to support the Improving Livelihoods and Governance through Resource Management in Afghanistan on April 22, 2010.

Despite the date the agreement was signed, the initial period of performance for this award actually began on April 10, 2010 through April 9, 2013, as a result of USAID issuing WCS a pre-award expenses authorization letter on April 10, 2010. This letter authorized WCS to incur pre-award limited costs for specific activities for the period April 10, 2010 through July 10, 2010.

Additionally, the cooperative agreement had 8 modifications that increased the initial award amount from \$8M to \$14M and increased the period of performance end date from April 9, 2013 to December 30, 2014. Natural resource management is the foundation for reconstruction in an agrarian society such as Afghanistan. In a country where 80% of the populace depends directly upon the natural resource base for their survival and livelihoods, and where 30 years of conflict has badly degraded the environment, sustainable resource management is key to improving lives and livelihoods and providing long-term stability across the country. At the same time, natural resource management provides an opportunity to build and strengthen rural governance structures and link them to the central government, a process that greatly strengthens the reach and rule of law in Afghanistan. This project seeks to ensure community tenure over natural resources and involvement in national parks and protected areas such that real tangible benefits flow directly to the communities. This involves community capacity development and training in sustainable management of resources and a corresponding building of capacity with provincial and national government departments (principally the Ministry of Agriculture, Irrigation and Livestock (MAIL) and the National Environment Protection Authority (NEPA).

Our audit covers the period of performance from July 1, 2013 through December 30, 2014, where WCS incurred costs totaling \$4,641,256.

Work Performed

Davis and Associates Certified Public Accountants, PLLC was engaged by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of WCS' program.

Methodology - Procedures Performed

Below are the documents that were used for the performance of this audit:

- The Cooperative Agreement 306-A-00-10-00516-00 between the USAID and WCS.
- Contracts and subcontracts with third parties.
- The written procedures approved by USAID/Afghanistan.
- USAID Office of Inspector General, *Guidelines for Financial Audits Contracted by Foreign Recipients (Guidelines)* dated February 2009.
- ADS Chapter 591 - *Financial Audits of USAID Contractors, Recipients, and Host Government Entities*.
- Mandatory Standard Provisions for U.S. Nongovernmental Grantees (USAID Automated Directives System, Chapter 303 Internal Mandatory References).
- All policies and procedures.

Our audit approach used significance and was risk-based. Significance is the relative importance of a matter within the context it is being considered, including qualitative and quantitative factors.

Special Purpose Financial Statement

We examined WCS' Special Purpose Financial Statements by budgeted line item under the agreement, including the budgeted amounts by category and major items. We reviewed OMB Circular A-122 to ensure that all costs incurred in Afghanistan and the U.S. under the USAID-funded agreement were allocable, reasonable, properly supported, allowable and properly included by WCS in the Special Purpose Financial Statements by category and major item. We utilized the Monetary Unit Sampling (MUS) guidelines as set forth in the GAO Financial Audit Manual (FAM) in order to determine the number of transactions to select for substantive testing. Based on the moderate level of risk of material misstatement to the revenue and related expense accounts that we assigned after completion of the initial risk assessment, a statistical risk factor of 1.5 was selected from the audit matrix in appendix 495D to FAM 400. For a moderate level of risk, the substantive audit assurance required is 86%, and the minimum audit assurance from detail testing is 77%; based upon that confidence level of 77%, the statistical risk factor is 1.5. The tolerable misstatement used is based on a materiality threshold of 3% of the total amount of the transactions in the account. The calculation is as follows: (1) Calculate Tolerable Misstatement – Total Value of Account multiplied by 3%; (2) Calculate Sampling Interval – Tolerable Misstatement divided by statistical risk factor (1.5); (3) Calculate Sample Size – Total Amount of account divided by Sampling Interval. Since some transactions are larger than the sampling interval, a selection might include more than one sample item, and as a result the actual number of items tested will be fewer than the sample size. The GAO FAM states, "This situation is not a problem and the auditor does not need to select additional items."

Internal Controls

Through inspection of documents, inquiry of personnel and observation of procedures, we obtained a sufficient understanding of WCS and its environment, including its internal control, to assess the risk of material misstatement of the books and records of WCS, whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.

Compliance with Laws and Regulations

We identified the significant provisions of laws and regulations to design relevant compliance-related procedures for the audit. We looked at those provisions (a) for which compliance could be objectively determined and (b) that had a direct and material effect on the Activity. Our audit included steps to allow us to detect all material instances of noncompliance, defined as instances that could have a direct and material effect on the Special Purpose Financial Statements.

Follow Up to Prior Audit Recommendations

We inquired of management as to whether or not any prior audit or compliance reviews had been performed with respect to the project under audit.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether WCS' Special Purpose Financial Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 - Internal Controls

Evaluate and obtain a sufficient understanding of WCS' internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether WCS' complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether WCS has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement.

Scope

We conducted our audit from April 21, 2015 through July 16, 2015, for the project implemented by WCS. The period covered under this audit was July 1, 2013 through December 30, 2014. Fieldwork was performed at WCS Headquarters at the Bronx Zoo in New York City. The total amount of direct costs for the period under audit was \$4,641,256; we selected \$1,462,629 of that population for substantive testing. Our testing of indirect costs was limited to applying the rates and recalculating amounts to verify the indirect costs using the negotiated indirect cost rate agreements ("NICRA") or provisional rate, as applicable for the given fiscal year, as approved by USAID/Afghanistan.

Summary of Audit Results

Special Purpose Financial Statements

We issued a modified opinion on the fairness of the presentation of the Special Purpose Financial Statement. [See *Independent Auditor's Report on the Special Purpose Financial Statements*, Page 12]

WCS did not properly exclude some unallowable costs. Our audit disclosed \$1,148,573 of costs that were required to be questioned in the Special Purpose Financial Statement. [See *Detailed Audit Findings*, Page 20]

Table 1 - Summary of Findings and Questioned Costs

Finding Number	Nature of Findings	Matter	Questioned Costs Description	Total Amount Questioned
WCS 1	Material Weakness in Internal Control Material Non-compliance	Consultancy Fees and Danger Pay	Unsupported	\$1,148,573
			Total Questioned Costs	\$1,148,573

Internal Controls

Our audit detected one deficiency in Internal Control; we consider this to be a material weakness. [See *Independent Auditor's Report on Internal Control*, Page 14]

Compliance with Laws and Regulations

Our audit detected one instance of material noncompliance that is required to be reported. [See *Independent Auditor's Report on Compliance*, Page 16]

Follow Up to Prior Audit Recommendations

Our audit determined that WCS had taken adequate corrective action to properly address the two prior audit findings we identified as potentially having a material effect on the special purpose financial statement. [See *Status of Prior Audit Findings*, Page 18]

We presented findings to WCS and requested a management response. WCS provided written responses, which included additional documentation. We reviewed the written responses and examined the additional documentation.

WCS did not agree with our audit findings - the management comments are included in [Appendix A](#); our responses to these comments are included in [Appendix B](#).

Exhibit I
Wildlife Conservation Society
Special Purpose Financial Statement
Cooperative Agreement 306-A-00-10-00516 Improving Livelihoods and Governance through Resource
Management in Afghanistan
July 1, 2013 through December 30, 2014

	Total Budget	Actual for the Period	Questioned Costs		Notes
			Unsupported Costs	Ineligible Costs	
Revenue	\$ 5,465,599	\$ 4,641,256	\$ -	\$ -	3
Total Revenue	<u>\$ 5,465,599</u>	<u>\$ 4,641,256</u>	<u>\$ -</u>	<u>\$ -</u>	
Costs Incurred					
Salaries	\$ 1,264,766	\$ 1,302,121	\$ -	\$ -	4
Fringe Benefits	317,772	211,376	91,780	-	4,A
Consultancy	982,862	982,862	891,082	-	4,A
Travel and Per Diem	553,034	442,334	-	-	4
Equipment	56,058	49,114	-	-	4
Supplies	315,989	227,470	-	-	4
Other Direct Costs	1,186,568	646,615	-	-	4
Indirect Costs	788,550	779,364	165,711	-	4
Total Program Amount	<u>\$ 5,465,599</u>	<u>\$ 4,641,256</u>	<u>\$ 1,148,573</u>	<u>\$ -</u>	
Outstanding Fund Balance		\$ -			4

(The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement prepared by WCS)

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT¹

Note 1 - Status and Operation

The Wildlife Conservation Society (WCS) is a US nonprofit, tax-exempt, private organization established in 1895 and headquartered in New York City that *saves wildlife and wild places by understanding critical issues, crafting science-based solutions, and taking conservation actions that benefit nature and humanity*. With more than a century of experience, long-term commitments in dozens of landscapes, presence in more than 60 nations, and experience helping to establish over 150 protected areas across the globe, WCS has amassed the biological knowledge, cultural understanding and partnerships to ensure that vibrant, wild places and wildlife thrive alongside local communities. WCS focuses on ecologically important, culturally valued, and at-risk species, which enables us to focus on direct conservation action and measure the impact of place-based conservation activities. The priorities in turn identify and inform strategies and actions at the landscapes and seascapes that are our conservation focus. This ensures that we invest in places most important for conserving priority species and that our efforts are feasible and cost-effective.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement includes costs incurred under Cooperative Agreement No. 306-A-00-10-00516 with Wildlife Conservation Society (WCS) for the period July 1, 2013 through December 30, 2014. Because the Statement presents only a selected portion of the operations of Wildlife Conservation Society, it is not intended to and does not present the Balance Sheet, Statement of Net Income, or Cash Flows of the Wildlife Conservation Society. The information in this Special Purpose Financial Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and is specific to Cooperative Agreement 306-A-00-10-00516. Therefore, some amounts presented in this Special Purpose Financial Statement may differ from amounts presented in, or used in the preparation of, Wildlife Conservation Society's Balance Sheet, Statement of Net Income, or Cash Flows.

¹ Prepared by WCS Management

Basis of Accounting

The Special Purpose Financial Statement has been prepared on the modified accrual basis of accounting whereby revenues are recognized in the period in which they become measurable and available, and expenses are recognized in the period in which the associated liability is incurred.

Foreign Currency Conversion Method

The operational currency in Afghanistan is the Afghani. Presentation currency is the U.S. Dollar. Currency translations have been done on the following basis.

- Revenues – recorded in U.S. Dollars
- U.S. Expenditures – recorded in U.S. Dollars
- Afghanistan Expenditures – recorded in U.S. Dollars

Average exchange rate for the period under audit:

- U.S. Dollar = 56.28 Afghani

Note 3 – Revenues

Revenues are recognized when earned and properly invoiced to USAID.

Note 4 – Major Cost Categories

Below are the major categories of costs expended under the cooperative agreement that are included within the budget lines on the Special Purpose Financial Statement.

Salaries

This cost category covers all staff salary payments, - national and international.

Fringe Benefits

This cost category covers the benefits expenses to national and international staff. For national staff specifically the Eid bonuses and for international consultants the danger pay, and for the NY it covers expenses like FICA, Medicare, Worker's Comp, Pension, etc.

Travel

This cost category covers all travel related expenses including air tickets (local and international), per diem and hardship allowances, visa fees, meals, taxis, transportation (including by animal) and accommodation.

Equipment and Supplies

This cost category covers the purchase of equipment, office supplies, field gear, stationery supplies and field mission supplies.

Subcontractors

We don't have any expenses under this cost category.

Other Direct Costs

This cost category covers most of the project expenses such as office and guesthouse rentals, repair and maintenance, utilities, vehicle operation expenses, staff meal expenses and expenses that could not fit under other cost categories.

Indirect Costs

We are a NGO that has previously and currently negotiated an approved indirect cost rate with the Federal Government. Our indirect cost rates approved and used during the life of this award were as follows: FY09 16.86%, FY10 16.91%, FY11 17.06%, FY12 17.88%, FY13 18.31% and FY14-15 20.75%.

NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT²

Unsupported costs – costs not supported with adequate documentation or that did not have required prior approval. Ineligible costs – costs prohibited by the cooperative agreement, applicable laws, or regulations.

Note A: – Consultancy Fees and Danger Pay

Finding WCS 1 identified \$1,148,573 in unsupported questioned costs related to consultancy fees and consultant danger pay. WCS did not have adequate procedures in place to fully document the work performed by each individual consultant when approving and processing payments for services rendered.

[Please refer to *Detailed Finding WCS 1 on page 20*]

² Prepared by Auditor

Independent Auditor's Report on the Special Purpose Financial Statement

To the President, Wildlife Conservation Society
2300 Southern Boulevard
Bronx, NY 10460

Report on the Financial Statements

We have audited, the Special Purpose Financial Statement of the Wildlife Conservation Society ("WCS") for Improving Livelihoods and Governance through Resource Management in Afghanistan under Cooperative Agreement 306-A-00-10-00516-00 for the period July 1, 2013 through December 30, 2014, hereinafter referred to as the financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles or other comprehensive basis of accounting;; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of the Special Purpose Financial Statement in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Special Purpose Financial Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Basis for Qualified Opinion

The results of our tests disclosed material questioned costs as detailed in the Special Purpose Financial Statement totaling \$1,148,573 that are not supported with adequate documentation or did not have required prior approvals or authorizations.

Qualified Opinion

In our opinion, except for the effects of the questioned costs discussed in the basis for qualified opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, program revenues, costs incurred and reimbursed by the U.S. Agency for International Development for the period July 1, 2013 through December 30, 2014 in accordance with the terms of the agreement or in conformity with the basis of accounting described in Notes to the Special Purpose Financial Statement, Page 8.

Other Reports Required by Government Auditing Standards

In accordance with U.S. Government Auditing Standards, we have also issued our reports, dated July 16, 2015, on our consideration of WCS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and the terms and conditions of the cooperative agreement. Those reports are an integral part of an audit performed in accordance with U.S. Government Auditing Standards and should be read in conjunction with this Independent's Auditor's Report in considering the results of our audit.

Restriction on Use

This report is intended for the information of WCS, the U.S. Agency for International Development and SIGAR. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Davis & Associates

Alexandria, Virginia
July 16, 2015

Independent Auditor's Report on Internal Control

To the President, Wildlife Conservation Society
2300 Southern Boulevard
Bronx, NY 10460

We have audited, the Special Purpose Financial Statement of the Wildlife Conservation Society ("WCS") for Improving Livelihoods and Governance through Resource Management in Afghanistan under Cooperative Agreement 306-A-00-10-00516-00 for the period July 1, 2013 through December 30, 2014, hereinafter referred to as the financial statements, and have issued our report dated July 16, 2015.

Management Responsibility

Management is responsible for establishing and maintaining internal control. Estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the financial statements in conformity with the basis of accounting described in Note 1.

Auditor Responsibility

We conducted our audit in accordance with U.S. *Government Auditing Standards* issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected and projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

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.

We consider the following deficiency in the entity's internal control to be a material weakness:

- WCS did not have adequate procedures in place to fully document the activities and work performed by consultants before approving payment. [Please refer to detailed Finding WCS 1 on page 20]

Purpose of this Report

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

Restriction on Use

This report is intended for the information of WCS, the U.S. Agency for International Development and SIGAR. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

Davis & Associates

Alexandria, Virginia

July 16, 2015

Independent Auditor's Report on Compliance

To the President, Wildlife Conservation Society
2300 Southern Boulevard
Bronx, NY 10460

We have audited, the Special Purpose Financial Statement of the Wildlife Conservation Society ("WCS") for Improving Livelihoods and Governance through Resource Management in Afghanistan under Cooperative Agreement 306-A-00-10-00516-00 for the period July 1, 2013 through December 30, 2014, hereinafter referred to as the financial statements, and have issued our report dated July 16, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its USAID-funded program.

Auditor's Responsibility

We conducted our audit in accordance with U.S. *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Costs Incurred in Afghanistan and the U.S. is free of material misstatement resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Schedule of Costs Incurred in Afghanistan and the U.S. amounts.

Compliance and Other Matters

Compliance with agreement terms and laws and regulations applicable to WCS is the responsibility of WCS' management. As part of obtaining reasonable assurance about whether the Schedule of Costs Incurred is free of material misstatement, we performed tests of WCS' compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Special Purpose Financial Statement.

In performing our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing. The results of our tests disclosed one

material instance of noncompliance that is required to be reported here under Government Auditing Standards and is described in Finding WCS 1 on page 20.

Purpose of this Report

The purpose of this report is solely to describe the scope of the 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 WCS's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

WCS' response to the finding identified in our report is attached as Appendix A to this report. We did not audit this response and, accordingly, we express no opinion on the response.

Restriction on Use

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

Davis & Associates

Alexandria, Virginia
July 16, 2015

STATUS OF PRIOR AUDIT FINDINGS

Finding Number: 2014-01
Time sheets were not prepared (Unsupported)

Prior Finding

“We noted that none of the expatriate employees who are working wholly and exclusively in Afghanistan have submitted monthly time sheets, which resulted in unsupported cost of US \$2,678,807.”

Current Status

We performed certain audit procedures on the WCS response to these findings to determine if they had taken adequate corrective action. We examined the following information:

1. USAID OIG Audit Report Number F-306-14-012-N, Audit of Local Costs Incurred by Wildlife Conservation Society, dated July 14, 2014, which included the Management Response
2. Written policies and procedures
3. Selected labor costs

We examined the audit report to determine the findings that were required to be addressed. We reviewed both WCS’ management response as well as the Auditor’s further comments for items to be addressed. We reviewed the written policies and procedures regarding timesheets and reviewed supporting documentation for labor costs, including timesheets, and determined that the Auditee had taken adequate corrective action and no further action is required.

Finding Number: 2014-02

Charging of indirect costs as direct costs (ineligible cost)

Prior Finding

“We noted that proportionate salaries of the WCS’ New York office employees have been charged to the Program who are working to support the Program activities as a direct costs rather than covering such costs under the indirect cost rate.”

Current Status

We performed certain audit procedures on the WCS’ response to these findings to determine if they had taken adequate corrective action. We examined the following information:

1. USAID OIG Audit Report Number F-306-14-012-N, dated July 14, 2014, which included the Management Response
2. Written policies and procedures
3. Program Budget
4. Final Decision letter

We examined the audit report to determine the findings that were required to be addressed. We reviewed both WCS’ management response as well as the Auditor’s further comments for items to be addressed. We reviewed the policies and procedures regarding the program budget as well as the final decision from the prior audit report, and determined that the Auditee had taken adequate corrective action and no further action is required.

DETAILED AUDIT FINDINGS

Finding Number: WCS 1 – Consultant Payments

Nature of Finding: Material Weakness in Internal Control; Material Non-Compliance

Condition

In reviewing payments to Consultants, the Auditors found that the Consultants were being paid without being required to submit documentation to support the services rendered. WCS does not require Consultants to submit timesheets to keep track of their work on the project.

We have questioned the full amount of consultant labor charged to the project for the period of performance under audit. These costs are not adequately documented with sufficient verification of hours worked or level of effort.

Amount Questioned	
Consultancy Fees	\$891,081.69
Consultants – Danger Pay	\$91,780.41
Indirect Costs	\$165,710.55
Total	\$1,148,572.65

Criteria

OMB Circular A-122, “Cost Principles for Non-Profit Organizations”, Attachment A – General Principles, states that

2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- g. Be adequately documented.*

OMB Circular A-122, “Cost Principles for Non-Profit Organizations”, Attachment B – Selected Areas of Costs, states that

37. Professional services costs.

- b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:*
- c. In addition to the factors in subparagraph b, retainer fees to be allowable must be supported by evidence of bona fide services available or rendered*

Questioned Costs

\$982,862.10 in direct costs, plus \$165,710.55 in indirect costs.

Cause

Due to management oversight and lack of awareness of OMB Circular A-122, WCS did not require Consultants to submit proof that the Consultants rendered the services for which they were compensated. WCS did not maintain adequate supporting documentation for Consultancy fees

Effect

Failure to require Consultants to submit timesheets or some other form of a personnel activity report may result in consultants being paid for work they have not performed. Not requiring consultants to submit timesheets or some other form of a personnel activity report results in noncompliance with OMB requirements, and unsupported costs being included in the Special Purpose Financial Statements.

Recommendation

We recommend that WCS reimburse all questioned costs, or provide supporting documentation for the unsupported costs. We recommend that WCS improve their Consultant contracts and require Consultants to submit timesheets to track the hours that they work on USAID funded projects. We also recommend that WCS improve its policies and procedures to ensure proper internal controls over the process of documenting Consultant activity as proof of services rendered.

APPENDIX A – WCS MANAGEMENT RESPONSE

In response to the Finding Number WCS-1 Consultant Payments, WCS is not in agreement with the finding and with the explanation as to the cause of the finding.

The audit quotes a portion of two sections of a-122 as justification for the finding; we feel it is appropriate to reference each of the sections rather than a portion when discussing this matter and provide them below for easy reference.

2. Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.*
- b. Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost items.*
- c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.*
- d. Be accorded consistent treatment.*
- e. Be determined in accordance with generally accepted accounting principles (GAAP).*
- f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.*
- g. Be adequately documented.*

And

37. Professional services costs.

- a. Costs of professional and consultant services rendered by persons who are members of a particular profession or possess a special skill, and who are not officers or employees of the nonprofit organization, are allowable, subject to subparagraphs b and c when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government. In addition, legal and related services are limited under Attachment B, paragraph 10.*
- b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:*
 - (1) The nature and scope of the service rendered in relation to the service required.*
 - (2) The necessity of contracting for the service, considering the non-profit organization's capability in the particular area.*
 - (3) The past pattern of such costs, particularly in the years prior to Federal awards.*

WCS has indicated to the auditors that it has the signed agreements with the consultants to work on the project, approved payment requests which are an indication that the consultant has completed their work for the

specific time period being reimbursed for and danger pay logs that document their time in Afghanistan. This material was deemed as sufficient evidence in the prior audits conducted on this project. The material also demonstrates that proper controls are in place for payment in line with GAAP and that the disbursement is documented.

The auditors did not wish to review this material but rather wished to see activity reports prepared by the consultants. WCS provided reports and email correspondence as requested, which in our opinion is additional support to the information that has been considered sufficient in the prior audits. It should be noted that not all consultants were able to provide written reports as they were in the field mentoring and training the rangers, practically in remote areas, and reported in by radio to their supervisor.

WCS has also indicated to the auditors that if there was still doubt that the work was not completed satisfactory they could visit our field sites to verify performance of the consultants. As we previously stated AID has endorsed WCS's work on this project and has been satisfied with the results. This would have not been possible if the consultants had not performed as contracted. In addition, when at the office they could review the email files of [REDACTED] which would provide ample evidence that WCS's consultants were on site and performing their jobs during this period. Such a visit would provide proof that the costs were reasonable for the performance of the award.

Therefore, WCS does consider that we are in compliance with OMB regulations and that the costs are supported. We wish to thank Davis and Associates for incorporating WCS's response in the audit report.

APPENDIX B – AUDITOR FURTHER RESPONSE

The criteria presented in the transmittal of the draft report was condensed for purposes of brevity within the report, however, this has no impact on the finding. We have included the excerpt from the relevant section of OMB Circular A-122 in its entirety for clarity. Please note that at the exit conference, we provided this reference in full for WCS' review.

At the fieldwork exit conference, the auditors explained that WCS did not initially provide timesheets or any alternative time keeping/effort tracking document that was used as a basis for approval of payment of monthly consultancy fees and danger pay to consultants in the performance of the project. Providing authorizations and proof of payments to consultants indicates that these payments were indeed made. However, providing authorizations and proof of payments alone is not sufficient supporting documentation to allow the auditor to determine the level of effort of the consultants engaged by WCS.

Management contends that the documentation provided in prior audits was deemed acceptable by prior auditors. Davis and Associates was engaged by SIGAR to render an opinion on the fair presentation of the Special Purpose Financial Statement as it relates to the program under audit. As independent certified public accountants, Davis and Associates is required to obtain sufficient evidentiary matter in order to render our opinion. We rely upon the criteria stated in OMB Circular A-122, "*Cost Principles for Non-Profit Organizations*", Attachment A – *General Principles* to determine the sufficiency of the evidentiary matter provided as outlined therein. Paragraph 2-g states that the cost must be adequately documented. For costs such as consultancy fees, where individuals are being paid periodically, consultant effort is typically documented through timesheets or some alternative personnel activity report that is signed and dated by the consultant and a supervisor. As such, we inquired of WCS if there were any personnel activity reports available to support the periodic payments for each individual consultant.

WCS indicated that they had emails, copies of reports, proof that the consultants were in country, etc. that would justify the consultancy fees. We asked WCS to send this information to us. What we received and reviewed were copies of email communications, surveys and reports. The information provided consisted of many group deliverables that are impossible to attribute to any one particular consultant. From the documentation provided, it is not possible to determine any particular consultant's level of effort over the period under audit. Because these consultants were each engaged and billed individually, and not as one unit from a particular organization, the cost of each consultant must be justified and supported by documentation.

Further, to WCS' comment that we did not wish to review additional documentation, we would like to bring attention to the timeline of the audit engagement. On July 16, 2015, we held the formal exit conference with SIGAR and WCS. In this exit conference, we provided our finding to WCS and informed them that they would have the opportunity to gather and provide additional audit documentation to address the questioned cost. On September 1, 2015 we provided WCS with the draft audit report and requested their response to same no later than September 15, 2015. On September 4, 2015, in response to WCS' request for clarification, we indicated that, "The purpose of the issuance of the draft report for your review is to afford you the opportunity to provide a formal management response as well as any documentation that you may have that is relevant to the audit findings. Please provide any additional documentation for our review. We will perform additional

audit procedures on that documentation and issue our further auditor response to same.” On September 10, 2015, WCS indicated that they were still working on gathering the information. On September 18, 2015, WCS provided copies of email communications, surveys and reports prepared by the consultants. On September 24, 2015, the Audit Partner sent an email to WCS indicating that the documentation was not sufficient to support the level of effort of individually engaged consultants. On September 25, 2015, WCS indicated that it would be sending additional documentation for us to review. On September 27, 2015, the Audit Partner sent an email to WCS indicating that the engagement must be wrapped up, and that the report would be issued based upon the information received to date. We believe that we provided WCS ample time to gather any and all documentation that they felt was relevant to the audit findings.

We were engaged to perform a financial audit of the costs incurred, not a performance audit. Our determination of the allowability of the costs is not predicated upon whether or not the work was completed to USAID’s satisfaction, but rather, that each individual consultant’s pay was sufficiently supported.

Based upon the above responses, we retain our finding and the questioned cost amount.

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

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

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