

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 18-68 Financial Audit

**USAID's Strengthening Political Entities and
Civil Society Program: Audit of Costs
Incurred by the National Democratic
Institute for International Affairs**



**SEPTEMBER
2018**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 6, 2013, the U.S. Agency for International Development (USAID) awarded the National Democratic Institute for International Affairs (NDI) a 3-year, \$18 million cooperative agreement to implement the Strengthening Political Entities and Civil Society (SPECS) program. USAID initially obligated \$12 million to the program. The program's objectives were to get political and civil society groups to engage the public in the political process. USAID modified the cooperative agreement 10 times, decreasing the estimated cost to \$17.8 million. The end date of July 5, 2016, did not change.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$1.7 million charged to the cooperative agreement from October 1, 2015, through July 5, 2016. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in NDI'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 NDI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of NDI's Special Purpose Financial Statement (SPFS). See Crowe's report for the precise audit objectives.

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

September 2018

USAID's Strengthening Political Entities and Civil Society Program: Audit of Costs Incurred by the National Democratic Institute for International Affairs

SIGAR 18-68-FA

WHAT THE AUDIT FOUND

Crowe identified three material weaknesses and one significant deficiency in NDI's internal controls, and four instances of noncompliance with the terms and conditions of the cooperative agreement. The auditors found that NDI provided inaccurate data in some financial reports it submitted to USAID. Crowe also found that NDI did not return unspent funds in a timely manner.

Because of these internal control deficiencies and instances of noncompliance, Crowe identified \$1,129 in interest due to USAID. Crowe did not identify any questioned costs, which could have consisted of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—or ineligible costs—costs prohibited by the task order, applicable laws, or regulations.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to NDI's financial performance under the cooperative agreement. The auditors found no findings that could be direct and material to the SPFS.

Crowe issued an unmodified opinion on the firm's SPFS, noting that 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 and advise NDI to pay USAID, as appropriate, the \$1,129 in interest as identified in the report.**
- 2. Advise NDI to address the report's four internal control findings.**
- 3. Advise NDI to address the report's four noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

September 6, 2018

The Honorable Mark Green
Administrator, U.S. Agency for International Development

Mr. Herbert B. Smith
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by the National Democratic Institute for International Affairs (NDI) under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Strengthening Political Entities and Civil Society (SPECS) program.¹ The program's objectives were to get political and civil society groups to engage the public in the political process. Crowe's audit covered \$1,712,727 charged to the agreement from October 1, 2015, to July 5, 2016. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine and advise NDI to pay USAID, as appropriate, the \$1,129 in interest as identified in the report.**
- 2. Advise NDI to address the report's four internal control findings.**
- 3. Advise NDI to address the report's four noncompliance findings.**

The results of Crowe's audit are in the attached report. We reviewed Crowe's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on NDI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of NDI's internal control or compliance with the task order, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Crowe 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-124)

¹ The cooperative agreement number is AID-306-A-13-00003.



National Democratic Institute for International Affairs
Special Purpose Financial Statement
Strengthening Political Entities and Civil Society (SPECS)
For the Period October 1, 2015 through July 5, 2016
(With Independent Auditor's Report Thereon)

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TRANSMITTAL LETTER

August 14, 2018

To the Board of Directors and Management of the National Democratic Institute for International Affairs
455 Massachusetts Ave, NW, Suite 800
Washington, D.C. 20001-2621

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of the National Democratic Institute for International Affairs' ("NDI") cooperative agreement No. AID-306-A-13-00003 for the period October 1, 2015, through July 5, 2016.

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

When preparing our report, we considered comments, feedback, and interpretations of NDI, SIGAR, and the United States Agency for International Development provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's responses to the findings are incorporated as an appendix to the final report.

Thank you for providing us the opportunity to work with you and to conduct the audit of NDI's cooperative agreement.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner
Crowe LLP

SUMMARY

Background

On July 6, 2013, the United States Agency for International Development (“USAID”) awarded the National Democratic Institute for International Affairs (“NDI”) a cooperative agreement funding the Strengthen Political Entities and Civil Society, (“SPECS”) program. The agreement – number AID-306-A-13-00003 – established a three year period of performance commencing on July 6, 2013, and obligated \$12,000,000 in funding. USAID modified the agreement 10 times, resulting in a final obligated amount of \$17,787,693. The period of performance concluded on July 5, 2016. NDI reported that the full amount of obligated funds were expended as of the end of the program.

Crowe LLP’s (“Crowe”) audit period - October 1, 2015, through July 5, 2016 – spanned a portion of the three year period of performance. During the audit period, NDI reported that \$1,712,727 in costs were incurred.

Under this cooperative agreement, NDI was required to implement a comprehensive, three-year program that would fulfill two objectives: 1) engaging political entities at the national and sub-national level to engage citizens in the political and election processes; and 2) assisting in civil society organization and actions that contribute to a transparent and inclusive political and electoral process.

Throughout the project’s period of performance, NDI reported having accomplished the following key results (unaudited by Crowe) as described in the project’s final progress report:

- Reached 3,986 Afghan citizens through constituent outreach activities;
- Mobilized 5,389 political entity members through SPECS program;
- Taught 11 political party leaders skills about campaign planning and strategy;
- Trained 49,686 candidate agents in technical assistance on partisan observation;
- Trained 6,162 individuals in campaign techniques, membership development, constituency outreach, platform design, communication skills, constituent outreach, transparency, and campaign finance;
- Assisted 23 political parties and political groupings to help them develop platforms and policy agendas;
- Conducted 111 political dialogue activities during the course of the program; and
- Developed linkages with 134 civil society groups in support of civic awareness and advocacy.

Work Performed

Crowe LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of cooperative agreement number AID-306-A-13-00003, for the period of October 1, 2015 through July 5, 2016.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

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

Audit Objective 2 – Internal Controls

Evaluate and obtain a sufficient understanding of NDI's internal controls related to the cooperative agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether NDI complied, in all material respects, with the cooperative agreement's requirements and applicable laws and regulations and to 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 NDI has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objective.

Scope

The scope of the audit included the period October 1, 2015, through July 5, 2016. The audit was limited to those matters and procedures pertinent to the cooperative agreement that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Procurement; and
- Reporting.

Methodology

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

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee, were incurred within the period covered by the SPFS and in alignment with specified cutoff dates, and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested, and the auditee provided, copies of policies and procedures to provide Crowe with an understanding of the system of internal control established by NDI. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the cooperative agreement. Crowe identified – through review and evaluation of the cooperative agreement executed by and between NDI and USAID – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, Federal cash draws from the letter of credit provided to NDI by USAID, procurements, and performance and financial reports for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess NDI's compliance. Testing of indirect costs was limited to determining whether indirect costs were charged to the U.S. Government in accordance with the provisions of the Negotiated Indirect Cost Rate Agreement ("NICRA") executed by and between NDI and USAID.

Further, because the audit period identified by SIGAR included the end of the period of performance, Crowe conducted closeout procedures, including assessing whether NDI promptly returned any Federal cash on-hand following the 90 day closeout period, submitted final performance and financial reports by the deadlines prescribed in the agreement and Federal regulations, and liquidated remaining obligations timely.

Regarding Audit Objective 4, Crowe inquired of NDI, SIGAR, and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and that required corrective action. The cooperative agreement was previously subject to audit by USAID's Office of the Inspector General and was also included within the scope of NDI's Single Audit. Crowe evaluated the audit results and considered them within the risk assessment.

Summary of Results

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

Crowe issued an unmodified opinion on the Special Purpose Financial Statement.

Crowe also reported on both NDI's compliance with the applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement and the internal controls over compliance and financial reporting. Crowe identified three material weaknesses, one significant deficiency, and four instances of noncompliance. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to NDI's financial performance under the cooperative agreement. No findings were identified that could have a direct and material impact on the SPFS. See **Section II: Summary Schedule of Prior Audit, Review, and Assessment Findings** for additional detail.

No questioned costs were reported. However, Crowe did identify and report \$1,129 in imputed interest as a result of NDI's noncompliance with cash management requirements. **Section I: Summary Schedule of Findings and Questioned Costs** provides additional detail regarding the findings.

Summary of Management Comments

Management partially agreed or disagreed with findings 2018-01, 2018-02, 2018-03, and 2018-04, including applicable recommendations, based on: 1) management's having followed its current financial reporting processes for many years and its considering the processes to be efficient and materially accurate; 2) management's position that it is appropriate for the organization to manage its current USAID program portfolio using the current cash management requirements appearing in 2 CFR Part 200 rather than those regulations specified in the agreement under audit; 3) NDI's position that its current policy adequately addresses the requirement to draw funds based on immediate cash needs and to promptly return funds; and 4) management's having a team in place to evaluate modifications to agreements and communicate such matters to subawardees.

References to Appendices

The auditor's reports are supplemented by two appendices – **Appendix A** containing the Views of Responsible Officials, and **Appendix B** containing the auditor's rebuttal.



Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the Board of Directors and Management of the National Democratic Institute for International Affairs
455 Massachusetts Ave, NW, Suite 800
Washington, D.C. 20001-2621

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of the National Democratic Institute for International Affairs ("NDI"), and related notes to the Statement, as of July 5, 2016, and for the period October 1, 2015, through July 5, 2016, with respect to agreement number AID-306-A-13-00003.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

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

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

Opinion

In our opinion, the Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction and on the basis of accounting described in Note 1.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by NDI in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of cooperative agreement number AID-306-A-13-00003, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the cooperative agreement referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated August 10, 2018, on our consideration of NDI's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NDI's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

August 10, 2018
Washington, D.C

National Democratic Institute for International Affairs
Special Purpose Financial Statement
Strengthening Political Entities and Civil Society (SPECS) - Cooperative Agreement AID-306-A-13-00003
For the Period October 1, 2015 to July 5, 2016

			Questioned Costs		Notes
	Budget	Actual	Ineligible	Unsupported	
Revenues					
Agreement # AID-306-A-13-00003	\$ 18,000,000	\$ 1,712,727			
Total Revenue	\$ 18,000,000	\$ 1,712,727			4
Costs Incurred					
Salaries and Benefits	1,546,795	260,778			2, 5
Field Staff Allowances	908,075	86,238			
Field Office Rent and Utilities	912,943	114,779			
Supplies and Equipment	257,202	13,123			
Communications	224,867	21,788			
Travel and Per Diem	1,522,573	96,374			
Contractual Services	5,615,624	707,809			
Consultant Fees	157,644	32,431			
Other Direct Costs	487,046	23,367			
Cooperative Agreements	3,492,810	20,709			
Indirect Costs	2,874,421	335,331			
Total Costs Incurred	\$ 18,000,000	\$ 1,712,727			
Balance	\$ -	\$ -			

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

National Democratic Institute for International Affairs
NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENT
For the Period October 1, 2015 through July 5, 2016

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement Number AID-306-A-13-00003 ("Agreement") for the program "Strengthening Political Parties and Civil Society" for the period October 1, 2015 through July 5, 2016. Because the Statement presents only a selected portion of the operations of the National Democratic Institute for International Affairs ("NDI"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of NDI. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Office of Management and Budget Circular A-122, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. The operational currency in Afghanistan is the Afghani and U.S. dollar. Presentation currency is the U.S. Dollar. Currency translations have been done on the following basis:

- Revenues – recorded in U.S. dollars
- U.S Dollar Expenditures – recorded in U.S. dollars
- Afghani Expenditures – Converted to U.S. dollars using the monthly weighted average exchange rate of the actual currency conversions during each period.

Note 4. Revenue Recognition

Revenues are recognized when allowable, eligible costs are incurred under the Agreement during the period of performance.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, approved Agreement budget adopted as a component of the modification #8 to the Agreement dated January 18, 2016. The budget, as presented, includes amounts authorized for the full project period - July 6, 2013, through July 5, 2016.

Note 6. Currency

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

Note 7. Subrecipients

NDI issued five sub-grant agreements under NDI's cooperative agreement #AID-306-A-13-00003 to two U.S. based organizations and three Afghanistan based organizations. Three of the sub-grantees reported costs and final adjustments during the period of this audit:

International Foundation for Electoral Systems	\$ 20,251
Internews Network	(3,112)
A local civil society organization in Afghanistan	<u>3,570</u>
	<u>\$ 20,709</u>

Note 8. Program Status and Deobligation

The Strengthening Political Parties and Civil Society program is complete. The period of performance for the Agreement concluded on July 5, 2016 as noted in the Agreement dated July 6, 2013. Adjustments to amounts currently reported on the Special Purpose Financial Statement are not expected. Accordingly, USAID issued modification #10 dated March 7, 2018, to reduce the Agreement by \$212,307 for a final estimated and obligated amount of \$17,787,693.

Note 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the period October 1, 2015 to July 5, 2016, period covered by the Statement. Management has performed their analysis through August 10, 2018.

(Continued)



Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors and Management of the National Democratic Institute for International Affairs
455 Massachusetts Ave, NW, Suite 800
Washington, D.C. 20001-2621

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of the National Democratic Institute for International Affairs ("NDI"), and related notes to the Statement, for the Period October 1, 2015 through July 5, 2016, with respect to cooperative agreement number AID-306-A-13-00003. We have issued our report thereon dated August 10, 2018.

Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period October 1, 2015 through July 5, 2016, we considered NDI's internal controls to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of NDI's internal control. Accordingly, we do not express an opinion on the effectiveness of NDI's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned costs as items 2018-01, 2018-02, and 2018-03 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency noted in Finding 2018-04 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

The National Democratic Institute for International Affairs' Response to the Findings

NDI's response to the findings was not subject to the auditing procedures applied in the audit of the Statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

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

Crowe LLP

Crowe LLP

August 10, 2018
Washington, D.C.

(Continued)



Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors and Management of the National Democratic Institute for International Affairs
455 Massachusetts Ave, NW, Suite 800
Washington, DC 20001-2621

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of the National Democratic Institute for International Affairs ("NDI"), and related notes to the Statement for the period October 1, 2015 through July 5, 2016, with respect to cooperative agreement number AID-306-A-13-00003. We have issued our report thereon dated August 10, 2018.

Management's Responsibility for Compliance

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2018-01, 2018-02, 2018-03, and 2018-04 in the accompanying Schedule of Findings and Questioned Costs.

The National Democratic Institute for International Affairs' Response to the Findings

NDI's response to the findings was not subjected to the auditing procedures applied in the audit of the Statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

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



Crowe LLP

August 10, 2018
Washington, D.C.

SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-01: Inaccurate Reporting on the Federal Financial Reports

Material Weakness and Non-Compliance

Condition: During our testing of federal financial reports (“FFRs”), we noted that NDI had set cash disbursements equal to Federal expenditures while asserting that it reported on the accrual basis of accounting. Management indicated that it utilizes a hybrid approach to completing the FFRs such that the report is not based purely on the accrual or cash basis. As a result of this process, management acknowledged that certain liabilities are not accrued on the FFRs such that there are known misstatements. However, management indicated that the amounts reported are materially accurate. To assess and quantify the misstatement resulting from management’s approach, we requested schedules identifying the specific transactions recorded on each FFR tested and the accompanying payment dates. Management indicated that a schedule is not available to support the assertion that the amounts reported are materially accurate such that the error cannot be quantified with the information provided.

In addition, we noted that NDI reported \$0 in unliquidated obligations on each FFR that was tested. We requested a copy of the schedules assembled by management when preparing the FFRs that supported the \$0 unliquidated obligation amounts. Management indicated that there are no such schedules prepared at the time each report is assembled; however, a schedule was developed in response to our inquiry and included unliquidated obligations totaling \$7,487. The \$7,487 represented unliquidated obligations that were omitted from the FFRs. We noted that the information provided by management reflected unpaid invoices as of the FFR cutoff dates. Such costs would meet the definition of expenditures on the accrual basis. A schedule showing all obligations, including contracts and subawards that had been issued and not fully liquidated or otherwise cancelled, was not provided. Therefore, it is unclear whether all unliquidated obligations that were omitted from the FFRs were appropriately captured in the schedule prepared by management.

Criteria: Pursuant to 22 CFR Part 226.21(b), *Standards for financial management systems*, recipients’ financial management systems shall provide for the following: (1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in §226.52; and (2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to all Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.”

22 CFR Part 226.2 defines “obligations” as follows: “[T]he amounts of orders placed, contracts and grants awarded, services received and similar transactions during a given period that require payment by the recipient during the same or a future period.”

22 CFR Part 226.2 defines “Outlays or expenditures” as follows: “Outlays or expenditures means charges made to the project or program...For reports prepared on an accrual basis, outlays are the sum of cash disbursements for direct charges for goods and services, the amount of indirect expense incurred, the value of in-kind contributions applied, and the net increase (or decrease) in the amounts owed by the recipient for goods and other property received, for services performed by employees, contractors, subrecipients and other payees and other amounts becoming owed under programs for which no current services or performance are required.”

22 CFR Part 226.2 defines “Unliquidated obligations” on the accrual basis as “the amount of obligations incurred by the recipient for which an outlay has not been recorded.”

Questioned Costs: None

Effect: Inaccurate data in NDI's financial reports could prompt USAID to make incorrect conclusions about NDI's use of Federal funding.

Cause: NDI's reporting procedure was inadequately designed to ensure alignment with the requirements for an accrual basis financial report. In addition, NDI's management did not require the development of financial schedules to support all amounts reported on the FFRs. Lastly, NDI did not fully understand the different reporting requirements applicable to cash basis reports relative to accrual basis reports.

Recommendation: We recommend that NDI modify its financial reporting procedures to require that schedules supporting all amounts included on the FFRs be developed and retained in advance of NDI's certifying the FFRs and submitting them to the Government. We further recommend that NDI consider having those individuals responsible for reviewing and approving FFRs obtain additional training regarding FFRs prepared on the cash basis and accrual basis of accounting.

Finding 2018-02: Unobligated Cash Balance Not Returned Promptly to USAID at Closeout

Material Weakness and Non-Compliance

Condition: Within NDI's interim final FFR certified on October 4, 2016, NDI reported having received \$17,938,000 in Federal cash and having disbursed \$17,840,856. The result was a reported \$97,144 in cash on-hand as of the closeout date, which was not reimbursed to USAID until January 12, 2017. NDI's interim final FFR reported cash disbursements that agreed to Federal expenditures on the accrual basis, which indicates there were no obligated cash balances remaining. Therefore, the full \$97,144 was required to be reimbursed promptly. NDI provided documentation demonstrating the organization had remitted interest associated with all of its Federal programs to the Government for interest earned exceeding \$500 in the year 2017. However, the applicable interest remittance threshold for the SPECS program is \$250, based on the terms of the cooperative agreement. It is unclear whether NDI retained or remitted interest earned under SPECS because the organization deposits its advance funding into a single account and does not track interest earnings separately by award.

Criteria: Title 22, Part 226.71(d) of the Code of Federal Regulations states, "The recipient shall promptly refund any balances of unobligated cash that USAID has advanced or paid and that is not authorized to be retained by the recipient for use in other projects." For purposes of the audit, prompt has been interpreted to mean 30 calendar days.

Pursuant to Title 22, Part 226.22(l) of the Code of Federal Regulations states, "Except as otherwise provided in the terms and conditions of the award in accordance with USAID regulations or other implementing guidance, for those entities where CMIA and its implementing regulations do not apply, interest earned on Federal advances deposited in interest bearing accounts shall be remitted annually to Department of Health and Human Services, Payment Management System, Rockville, MD 20852. Interest amounts up to \$250 per year may be retained by the recipient for administrative expense."

Questioned Costs: None. However, an imputed interest amount of \$360 was calculated using an interest rate of 1.875 percent as published by the U.S. Treasury Department. The interest amount was calculated based on the additional two months and 11 days that NDI held Federal cash prior to returning funds to USAID.

Effect: NDI held greater Federal cash than was required, which prevented the funds from being utilized for other Federal purposes.

Cause: NDI elected to retain the excess cash in anticipation of future adjustments. In addition, NDI's "External Financial Reporting" procedures, which addresses the organization's policy for FFRs, did not address requirements for prompt payment such that funds were not returned timely.

Recommendation: We recommend that NDI revise its financial reporting procedures to require the prompt return of any Federal cash on-hand (i.e., within 30 calendar days) remaining at the end of the closeout period.

We further recommend that NDI either remit \$360 in interest to the Government or otherwise provide documentation to USAID that any interest earnings resulting from this instance of noncompliance have already been remitted.

Finding 2018-03: Funds Drawn Down in Excess of Immediate Cash Needs during the Project Period

Material Weakness and Non-Compliance

Condition: During our testing of Federal draws, we noted that NDI had drawn down the full obligated award amount of \$18 million as of March 1, 2016. As of March 31, 2016, cash on-hand of \$184,359 was reported by NDI thus indicating that more Federal cash had been drawn down than was required for immediate cash needs. NDI did not initiate the return of excess cash until June 2, 2016.

Criteria: Pursuant to 22 CFR Part 226.22(b)(2), "Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program or project costs and the proportionate share of any allowable indirect costs."

Questioned Costs: None. However, an imputed interest amount of \$769 was calculated using an interest rate of 2.5 percent, as published by the U.S. Department of the Treasury, based on the additional 2 months that NDI held Federal cash prior to returning funds to USAID.

Effect: NDI held greater Federal cash than was required, which prevented the funds from being utilized for other Federal purposes.

Cause: NDI elected to retain the excess cash as it had expected additional costs to be incurred that would require Federal cash. In addition, NDI's "Cash Drawdown Procedures" did not instruct personnel to adjust cash on-hand in the event that greater funds have been drawn down than required for immediate cash needs.

Recommendation: We recommend that NDI revise its cash drawdown procedures to require the prompt return of any Federal cash on-hand that has been drawn down and is not required for immediate cash disbursements.

We further recommend that NDI either remit \$769 in interest to the Government or otherwise provide documentation to USAID that any interest earnings resulting from this instance of noncompliance have already been remitted.

Finding 2018-04: Failure to Include the “Limiting Construction Activity” Provision in Contracts

Significant Deficiency and Non-Compliance

Condition: Crowe selected 16 of NDI’s 45 total procurements during the audit period for testing. Based on our review, we concluded that none of the 16 contracts contained the Limiting Construction Activity provision.

Criteria: The Cooperative Agreement, as modified, states:

“a.) Construction is not eligible for reimbursement under this award unless specifically identified in paragraph d) below.

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 subawards 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.

d) Construction is not eligible for reimbursement under this award.

e) The recipient must include this provision in all subawards and procurements and make vendors providing services under this award and subrecipients aware of the restrictions of this provision.”

Questioned Costs: None

Effect: The likelihood that NDI’s contractors or subrecipients would incur construction costs that are ineligible for reimbursement was increased. This could result in NDI’s expending Federal funds on unauthorized activities.

Cause: Management did not have an adequate process in place to review modifications to the cooperative agreement and ensure that applicable revisions are communicated to impacted parties (i.e., contractors).

Recommendation: NDI should develop a policy or procedure that requires: 1) all changes and modifications in an agreement as well as evidence of communication to impacted contractors be reviewed by a supervisor; and 2) any new requirements or modifications be communicated to contractors who may be impacted by the changes.

SECTION II – SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Per discussion with NDI, SIGAR, and USAID, the cooperative agreement was incorporated into the scope of NDI's audited financial statements for the year ended September 30, 2016, and 2015, and Audit Report No. F-306-17-007-N issued by USAID's Office of the Inspector General ("OIG"). No findings were identified that could have a direct and material impact on the SPFS.

APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS



NATIONAL
DEMOCRATIC
INSTITUTE
FOR INTERNATIONAL AFFAIRS

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August 10, 2018

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Bert Nuehring, CPA, Partner
Crowe LLP
1455 Pennsylvania Avenue, NW, Suite 700
Washington, DC 20004

Dear Mr. Nuehring:

Thank you for providing the National Democratic Institute for International Affairs (NDI) with the opportunity to respond to the draft audit report of Cooperative Agreement #AID-306-A-13-00003 for the period October 1, 2015 to July 5, 2016. NDI has a strong commitment to complying with all of its donor agreements and has a robust internal control system in place that allows NDI to carry out the important work of democracy assistance while still ensuring effective and efficient operations and grant compliance.

NDI respectfully disagrees with the labeling of "material weakness" for findings 2018-02 and 2018-03. As defined in the audit report, "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 Statement will not be prevented, or detected and corrected, on a timely basis." Finding 2018-02 relates to not returning the unobligated cash balance promptly to USAID at close-out, and Finding 2018-03 is in regards to drawing down cash in excess of the immediate cash need. Neither of these findings could result in a financial statement misstatement.

Please find herein NDI's specific responses to each of the findings:

Finding 2018-01: Inaccurate Reporting on the Federal Financial Reports

Auditor Recommendation 2018-01: We recommend that NDI modify its financial reporting procedures to require that schedules supporting all amounts included on the FFRs be developed and retained in advance of NDI's certifying the FFRs and submitting them to the Government. We further recommend that NDI consider having those individuals responsible for reviewing and approving FFRs obtain additional training regarding FFRs prepared on the cash basis and accrual basis of accounting.

NDI Response 2018-01: NDI disagrees with this finding, as well as the assertions of what was or was not provided to the auditors during the testing of the Federal Financial Reports (FFRs). NDI reports accurate financial information in its FFRs; all FFRs tie to NDI's accounting system; and NDI uses efficient methods to satisfy the information needs of USAID without over-taxing NDI staff with burdensome reporting that may result in additional but immaterial information.

As explained to the auditors, NDI uses a hybrid method of cash and accrual, and many years ago NDI was advised to check the accrual box. The expenditures reported in NDI's financial reports are those that have been recorded in its accounting system, which primarily reflects cash disbursed. It also includes field office advances and subgrant advances, which are our most material accruals, as these amounts are an estimate of what was spent by NDI's field offices and subgrantees but not yet fully reconciled in the accounting system due to a lag in receiving the financial information from the respective parties. As NDI has more than 100 grants in a given year, it has never been our intent to accrue specific liabilities on an interim reporting basis, but because the most significant items are included (field offices and subgrantees) it was deemed reasonable to check accrual rather than cash. Further, NDI's unliquidated obligations reported on the FFR are zero, because the amounts "accrued" for the field offices and subgrantees are included in the cash disbursement and expenditure line items since they are equal to the amounts disbursed to, and utilized by, field offices and subgrantees but unreconciled at the time of reporting.

Contrary to the assertion in the finding, NDI provided its account balances from its accounting system as of June 30, 2016, to confirm that the amount reported in the June 30, 2016 FFR is consistent with NDI's accounting records. The auditors did not request additional, more detailed information after that point but it is available.

NDI has been utilizing this approach for decades, and based on dozens of audits and discussions with missions and donors about specific FFRs, it has been our understanding that the federal government is supportive of this approach. However, NDI welcomes USAID's feedback, as we are open to checking the "cash" box rather than the "accrual" box if the circumstances described above are more appropriately considered the cash basis.

Finding 2018-02: Unobligated Cash Balance Not Returned Promptly to USAID at Closeout

Auditor Recommendation 2018-02: We recommend that NDI revise its financial reporting procedures to require the prompt return of any Federal cash

on-hand (i.e., within 30 calendar days) remaining at the end of the closeout period.

We further recommend that NDI either remit \$360 in interest to the Government or otherwise provide documentation to USAID that any interest earnings resulting from this instance of noncompliance have already been remitted.

NDI Response 2018-02: NDI agrees the funds could have been returned sooner, but disagrees that it owes any additional interest. NDI also disagrees with the classification of this finding as a material weakness, as it in no way affects the possibility of a misstatement of the financial statements.

The provisions regarding the return of interest over a certain threshold in the old and new guidance (22, Part 226.22(l) and 2 CFR 200.305(b)(9), respectively), allow for an organization to maintain interest earned up to \$250 and \$500, respectively, for the organization overall, not on a grant by grant basis. Given that NDI's portfolio of agreements from USAID includes both the old and new guidance, NDI complies with the new guidance for those provisions that are organization-wide and not grant-specific. Therefore, NDI believes it appropriately followed 2 CFR 200.305.

In accordance with this regulation, NDI remitted interest to the Department of Health and Human Services (DHHS) for FY17 (October 1, 2016 to September 30, 2017). Total interest earned during FY17 was \$599.57. NDI remitted \$99.57 to the required federal agencies. The USAID portion was determined to be \$63.07, and was remitted on December 28, 2017. The full calculation and proof of payment was provided to the auditor on July 6, 2018.

Although NDI believes no further interest is due, NDI notes that the interest rate used in the calculation by the audit firm is not in line with the rate of interest actually earned by NDI. The rate used by the auditors was 1.875%; however, NDI's average rate of return was 0.018% in FY17.

The audit finding noted that "it was unclear whether NDI retained or remitted interest earned under SPECS because the organization deposits its advance funding into a single account and does not track interest earnings separately by award." NDI would like to note that the federal regulations do not require separate depository accounts, as promulgated in Title 22, Part 226.22(i)(1) and in 2 CFR 200.305(b)(7)(i). NDI firmly believes it has complied with the regulations by returning interest earned over \$500.

Finding 2018-03: Funds Drawn Down in Excess of Immediate Cash Needs during the Project Period

Auditor Recommendation 2018-03: We recommend that NDI revise its cash drawdown procedures to require the prompt return of any Federal cash on-hand that has been drawn down and is not required for immediate cash disbursements.

We further recommend that NDI either remit \$769 in interest to the Government or otherwise provide documentation to USAID that any interest earnings resulting from this instance of noncompliance have already been remitted.

NDI Response 2018-03: NDI disagrees with this finding and the recommendations.

NDI's drawdown procedures explain the process for analyzing grant funds on hand along with upcoming *immediate* cash needs to determine a calculated drawdown amount. Further analysis is then performed using judgment based on known circumstances to adjust the calculated amount up or down. Specifically, the policy states:

"The calculated drawdown amount is reviewed for reasonableness and may be adjusted upward or downward based on historical expenses, upcoming programming activities and other overall project factors such as pending extensions, ending/closing status etc."

In practice, NDI has returned funds to donors in the middle of a grant performance period if the calculations and further analysis show an excess amount had been received. In this particular case, NDI was nearing the end of the grant and projections prepared by the program team showed an expectation that the funds on hand would be utilized. When NDI realized that spending was not occurring as anticipated, NDI returned excess funds.

Furthermore, NDI disagrees with the recommendation to return additional interest. As noted in the response to finding 2018-02, the federal provisions regarding the return of interest over a certain threshold in the old and new guidance (22, Part 226.22(l) and 2 CFR 200.305(b)(9), respectively), allow for an organization to maintain interest earned up to \$250 and \$500, respectively, for the organization overall, not on a grant by grant basis. Given that NDI's portfolio of agreements from USAID includes both the old and new guidance, NDI complies with the new guidance for those provisions that are organization-wide and not grant-specific. Therefore, NDI believes it appropriately followed 2 CFR 200.305.

In accordance with the regulation, NDI did not remit interest to the Department of Health and Human Services Payment Management System in FY16, as it only earned \$378.05, which was below the \$500 amount that grantees are able to maintain for administrative expenses. The calculation was provided to the auditor on July 6, 2018. Further, NDI notes the average rate of return during FY16 was 0.010%, not 1.875% as used in the auditor's calculation.

Finding 2018-04: Failure to Include the "Limiting Construction Activity" Provision in Contracts

Auditor Recommendation 2018-04: NDI should develop a policy or procedure that requires: 1) all changes and modifications in an agreement to be reviewed by a supervisor; and 2) any new requirements or modifications be communicated to contractors and/or subrecipients who may be impacted by the changes.

NDI Response 2018-04: NDI agrees with the "Condition" stated in the audit report, but does not agree with the defined "Cause" and therefore a portion of the recommendation. NDI has a dedicated team to receive and review all modifications from USAID and share pertinent information to all affected parties. In the case of the "Limiting Construction Activity" provision, NDI reviewed the provision and determined that NDI's subgrant agreements include reference to the mandatory standard provisions, therefore no further action was needed with regards to subgrant agreements. Regarding contracts, it was an oversight that the provision was not included in the contracts issued under Cooperative Agreement #AID-306-A-13-00003. However, the risk of contractors performing unauthorized activities is extremely low, as none of the contractors under said cooperative agreement were engaged for such a purpose.

If NDI receives future funding from USAID in Afghanistan, it will ensure that the Limiting Construction Activity provision will be included in all contracts issued under such award.

Thank you for the opportunity to respond to the findings.

Sincerely,



Sherri Peters
Manager, Budget and Special Projects

APPENDIX B – AUDITOR’S REBUTTAL

Crowe LLP (“Crowe” or “we” or “us” or “auditor”) has reviewed the letter dated August 10, 2018, containing NDI’s management responses (“Management”) to the draft audit report. In consideration of those views, Crowe has included the following rebuttal to certain matters presented by the auditee. A rebuttal has been included in those instances where management disagreed with an audit finding. Crowe modified the cause and recommendation for finding 2018-04, based on our review of management’s comments.

General Matters

Management disagreed with the classification of findings 2018-02 and 2018-03 as material weaknesses because, in management’s assessment, the noncompliance would not result in a financial statement impact. Finding 2018-02 pertains to management’s failing to return unobligated cash promptly to USAID at closeout and Finding 2018-03 addresses NDI’s drawing down cash in excess of the immediate cash needs. The auditor assessed the *potential* quantitative and qualitative impact of these two issues, and determined the material weakness classifications to be appropriate. Specifically, the auditor detected errors that, in our judgment, were caused by inadequately designed internal controls over cash management and closeout activities. Based on the auditor’s experience with international programs, including those sponsored by USAID, the impact of such matters has the potential to result in questioned costs and findings for recovery that impact final allowable cost amounts and corresponding revenues earned.

Finding 2018-01

Management disagreed with the finding. However, no new information was provided to alter the facts underlying the finding or to otherwise demonstrate that the information in question on NDI’s federal financial reports is accurate, complete, and compliant with the basis of accounting selected on the reports. Further, in the auditor’s judgment, sufficient, appropriate evidence was received from NDI to support the finding, including management’s acknowledgement of certain omissions that support the conclusions reached. Accordingly, the finding remains unchanged.

Finding 2018-02

Management concurred with the facts underlying the finding, but disagreed with the recommendation for remittance of additional interest. Crowe has reviewed the response and, prior to releasing the draft report, corresponded with USAID regarding the applicable regulations. As noted within the finding, Crowe obtained evidence that NDI has remitted interest earnings for the applicable year to USAID under the current cash management requirement codified in 2 CFR Part 200 (i.e., the Uniform Guidance). Crowe understands Management’s position and stands on its recommendation that NDI collaborate with USAID to address any inconsistencies between NDI’s cash management approach and USAID’s expectations as pertaining to awards and administrative matters that incorporate both pre-Uniform Guidance and post-Uniform Guidance implementation. USAID’s agreement with NDI does not contain instruction for the resolution of conflicting provisions and guidance. As such, the interest regulations in place at the time of the award’s issuance to NDI remain in effect, and the finding remains unchanged.

Finding 2018-03

Management disagreed with the finding and recommendations. Management determined that their cash management policy sufficiently addresses the calculation of immediate cash needs. Management also indicated that NDI's interest earnings did not exceed \$500 in the applicable year; \$500 is the threshold for remittance of interest earnings to the Government under the current cash management requirement codified in the Uniform Guidance. Crowe re-reviewed the cash management policy in light of Management's comments and, as previously communicated, noted that the policy does not expressly address the prompt return of Federal cash on-hand that is not needed for immediate cash needs. Management did not provide new information to change the facts stated in the condition. Therefore, the finding and recommendation pertaining to the excess draw amounts and the suggested policy enhancements remain unchanged.

Regarding the recommended remittance of interest earnings, Crowe understands Management's position and stands on its recommendation that NDI collaborate with USAID to address any inconsistencies between NDI's cash management approach and USAID's expectations as pertaining to awards and administrative matters that incorporate both pre-Uniform Guidance and post-Uniform Guidance implementation. USAID's agreement with NDI does not contain instruction for the resolution of conflicting provisions and guidance. The recommendation remains unchanged.

Finding 2018-04

Management agreed with the facts underlying the finding; however, management did not agree with the cause as communicated in the draft report. We have reviewed management's response and, in consideration of the comments, revised the cause and recommendation. No further modifications to the finding were deemed necessary.

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:

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