

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-38 Financial Audit

Department of State's Cluster Munitions
Clearance Projects: Audit of Costs Incurred
by the Demining Agency for Afghanistan



JUNE
2021

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

The U.S. Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State) awarded the Demining Agency for Afghanistan (DAFA) four grants between 2017 and 2020 in support of Cluster Munitions Clearance projects throughout Afghanistan. The grants' objectives were, among other things, to prevent the loss of life and limb, and return land and infrastructure to productive use by clearing landmines and other explosive remnants of war. The combined budget for the grants totaled \$5,165,000, with a period of performance from September 25, 2017, through June 19, 2020. After five modifications to the grants, total funding increased to \$6,332,146, and the period of performance was extended to July 31, 2020.

SIGAR's financial audit, performed by Conrad LLP (Conrad) reviewed \$5,292,192 in costs charged to the grants from April 1, 2018, through July 31, 2020. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in DAFA's internal controls related to the grants; (2) identify and report on instances of material noncompliance with the terms of the grants and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether DAFA has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of DAFA's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

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

June 2021

Department of State's Cluster Munitions Clearance Projects: Audit of Costs Incurred by the Demining Agency for Afghanistan

SIGAR 21-38-FA

WHAT SIGAR FOUND

Conrad identified three deficiencies in DAFA's internal controls and four instances of noncompliance with the terms of the grants. For example, DAFA paid employees whose positions or rates of pay were not authorized in the grants' approved budget. Additionally, four transactions lacked evidence that vendors acknowledged they had been paid.

Because of the aforementioned issues, Conrad identified \$6,888 in total questioned costs, consisting of \$5,718 unsupported costs—costs not supported with adequate documentation or that do not have the required prior approval—and \$1,170 ineligible costs—costs prohibited by the grants and applicable laws and regulations.

| Category | Ineligible | Unsupported | Total Questioned Costs |
|--------------------|----------------|----------------|------------------------|
| Personnel | \$623 | \$0 | \$623 |
| Fringe Benefits | \$404 | \$0 | \$404 |
| Supplies | \$36 | \$418 | \$454 |
| Other Direct Costs | \$0 | \$4,779 | \$4,779 |
| Indirect Costs | \$107 | \$521 | \$628 |
| Total Costs | \$1,170 | \$5,718 | \$6,888 |

Conrad identified eight prior audits that were relevant to grants. The audits had 17 findings that could have a material effect on the SPFS. Conrad conducted follow-up procedures and concluded that DAFA had not adequately addressed 13 of the findings.

Conrad issued an unmodified opinion on DAFA's SPFS.

WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$6,888 in questioned costs identified in the report.**
- 2. Advise DAFA to address the report's three internal control findings.**
- 3. Advise DAFA to address the report's four noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 9, 2021

The Honorable Antony J. Blinken
Secretary of State

Mr. Dean Thompson
Acting Assistant Secretary
Bureau of South and Central Asian Affairs

Mr. Ross Wilson
U.S. Chargé d'Affaires to Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by the Demining Agency for Afghanistan (DAFA) under four grants supporting the U.S. Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement's (State) Cluster Munitions Clearance projects throughout Afghanistan.¹ The grants' objectives were, among other things, to prevent the loss of life and limb, and return land and infrastructure to productive use by clearing landmines and other explosive remnants of war. Conrad reviewed \$5,292,192 in costs charged to the grants from April 1, 2018, through July 31, 2020. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$6,888 in questioned costs identified in the report.**
- 2. Advise DAFA to address the report's three internal control findings.**
- 3. Advise DAFA to address the report's four noncompliance findings.**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad'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 DAFA's Special Purpose Financial Statement. We also express no opinion on the effectiveness of DAFA's internal control or compliance with the grants, laws, and regulations. Conrad is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-205)

¹ The grant numbers are: S-PMWRA-17-GR-1062, S-PMWRA-18-GR-0019, S-PMWRA-19-GR-0010, S-PMWRA-19-GR-0019.

Demining Agency for Afghanistan (DAFA)

Financial Audit of Costs Incurred Under
Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

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April 20, 2021

Board of Directors
Demining Agency for Afghanistan
Kabul, Afghanistan

Special Inspector General for Afghanistan Reconstruction ("SIGAR")
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of the Demining Agency for Afghanistan's ("DAFA") Special Purpose Financial Statement ("SPFS") for costs incurred under four Grants ("Grants") awarded by the Department of State ("State"), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA") for the period April 1, 2018 through July 31, 2020, supporting various Demining and Munitions Clearance Projects throughout Afghanistan.

On February 24, 2021, we provided SIGAR with a draft report reflecting our audit procedures and results. DAFA received a copy of the report on March 26, 2021 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and DAFA. DAFA's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you, and to conduct the audit of these Grants.

Sincerely,

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

Sam Perera, CPA, CFE, CITP, CGMA
Partner

DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Background

Between 2017 and 2020 the Department of State's ("State"), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA") awarded four Grants to the Demining Agency for Afghanistan ("DAFA") to support Cluster Munitions Clearance projects throughout Afghanistan. DAFA was tasked with the following principal objectives:

1. Avoid loss of human lives and limbs through the use of demining and explosive ordinance teams to clear explosive hazards from high priority areas.
2. Return land from hazardous areas allowing beneficiaries to use the land for agriculture, grazing, and infrastructure by clearing landmines and other explosive remnants of war.
3. Appoint tactical teams, such as Community Based Demining Teams, Mechanical Demining Units, and Explosive Ordinance Disposal/Survey teams to assigned Community Based Demining Projects.

PM/WRA issued the first Grant on September 25, 2017, and the period of performance for the last Grant ended on June 19, 2020. The initial approved budget for the Grants totaled \$5,165,000. There were five modifications to the Grants which increased the approved budget to \$6,332,146 and extended the period of performance through July 31, 2020. See Summary of Grants below.

Summary of Grants

| Grant Number | Original Budget and Period of Performance | | | No. of Amendments | Amended Budget and Period of Performance | |
|--------------------|--|-------------------------|------------|----------------------|---|-----------|
| | Budget (\$) | Start | End | | Budget (\$) | End |
| S-PMWRA-17-GR-1062 | \$1,000,000 | 09/25/2017 | 09/24/2019 | 4 | \$2,167,146 | No Change |
| S-PMWRA-18-GR-0019 | 1,000,000 | 04/01/2018 ¹ | 03/31/2019 | None | 1,000,000 | No Change |
| S-PMWRA-19-GR-0010 | 925,000 | 06/17/2019 | 04/30/2020 | None | 925,000 | No Change |

¹ The period of performance for this grant included a pre-award phase from April 1, 2018 through May 13, 2018 which DAFA had incurred costs and was approved by the State.

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

| | | | | | | |
|--------------------|--------------------|------------|------------|----------|--------------------|------------|
| S-PMWRA-19-GR-0019 | 2,240,000 | 06/20/2019 | 06/19/2020 | 1 | 2,240,000 | 07/31/2020 |
| Total: | \$5,165,000 | | | 5 | \$6,332,146 | |

Work Performed

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of DAFA’s Special Purpose Financial Statement (“SPFS”) for costs incurred under four Grants awarded by PM/WRA totaling \$5,292,192 for the period April 1, 2018 through July 31, 2020. All four Grants are close-out audits.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit of the aforementioned awards include the following:

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

Scope

The scope of this audit included all costs incurred during the period April 1, 2018 through July 31, 2020 totaling \$5,292,192 under the Grants. Our testing of indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect

(Continued)

DEMINEING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

cost rates, as applicable for the given fiscal year, as approved in each of the Grants and subsequent applicable amendments.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on October 6, 2020. Participants included representatives from Conrad, DAFA, SIGAR, and PM/WRA. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of DAFA;
- Reviewed the Grants and all amendments;
- Reviewed specific State regulations that are applicable to the Grants;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. Based on our approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high to medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the Grants, Title 2 Part 200 and 600: Code of Federal Regulations (2 CFR 200 and 2 CFR 600), and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we did not identify any related party transactions.

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

- High risk cost categories – sample transactions that are greater than \$26,500 not to exceed 30% of the total amount expended for each cost category.
- Medium risk cost categories – sample transactions that are greater than \$53,000 not to exceed 20% of the total amount expended for each cost category.
- Low risk cost categories – sample transactions that are greater than \$53,000 not to exceed 10% of the total amount expended for each cost category, and not to exceed 50 transactions in total for all accounts comprising low risk categories.

Internal Controls Related to the Grants

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

Compliance with the Grants' Requirements and Applicable Laws and Regulations

We performed tests to determine whether DAFA complied, in all material respects, with the Grants' requirements, 2 CFR 200, 2 CFR 600, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested from DAFA, as well as conducted a search online to various governmental websites including SIGAR, State, and other Federal agencies, to identify previous engagements that could have a material effect on DAFA's SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Status of Prior Audit Findings section on page 34.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Grants and applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

- Reviewed personnel costs to ensure they are supported, authorized, reasonable, and allowable; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Grants, and reasonable.

Exit Conference

An exit conference was held on February 11, 2021 via conference call. Participants included representatives from Conrad, DAFA, SIGAR, and PM/WRA. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

As a result of our procedures, we issued an unmodified opinion on the SPFS and identified four findings that amounted to \$6,888 in questioned costs. We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS. We identified \$6,888 in total questioned costs, comprised of \$1,170 in ineligible costs, \$5,718 in unsupported costs.

Internal Controls and Compliance

Conrad also reported on DAFA's internal controls over financial reporting and compliance with laws, rules, and regulations, and the terms and conditions of the agreements. We identified two significant deficiencies and one deficiency in DAFA's internal controls, and four non-compliance issues. In performing our testing, we considered whether the information obtained resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

In response to the identified instances of non-compliance, we identified \$6,888 in total questioned costs, comprised of \$1,170 in ineligible costs, \$5,718 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the award provisions or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations. The following summarizes the audit results.

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
 Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
 Office of Weapons Removal and Abatement (PM/WRA)
 Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

| Finding Number | Nature of Finding | Matter | Ineligible Costs | Unsupported Costs | Cumulative Questioned Cost |
|-------------------------------|--|---|-------------------------|--------------------------|-----------------------------------|
| 2020-01 | Non-compliance and Internal Control – Deficiency | Vendor cash payments and procurement transactions lacked proper approval which demonstrated a lack of adherence to DAFA’s internal policies | \$0 | \$0 | \$0 |
| 2020-02 | Non-compliance and Internal Control – Significant Deficiency | DAFA lacked sufficient evidence to support the adequacy of costs incurred | \$0 | \$5,718 | \$5,718 |
| 2020-03 | Non-compliance and Internal Control – Significant Deficiency | DAFA claimed ineligible costs | \$1,170 | \$0 | \$6,888 |
| 2020-04 | Non-compliance | DAFA did not adhere to Afghanistan Tax Laws | \$0 | \$0 | \$0 |
| Total Questioned Costs | | | \$1,170 | \$5,718 | \$6,888 |

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to DAFA’s activities under the Grants, we identified eight prior engagements that contained 17 findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have reviewed the corrective actions taken to address these findings and recommendations. Our review procedures included holding discussions with management regarding corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of items similar to those found in the prior findings. Based on our review, DAFA has taken adequate corrective actions on certain recommendations but still has not taken adequate corrective action on 13 of the prior findings.

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DEMINING AGENCY FOR AFGHANISTAN (DAFA)

Financial Audit of Costs Incurred Under
Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

See Status of Prior Audit Findings on page 34 for a detailed description of the prior findings and recommendations.

Summary of DAFA's Responses to Findings

The following represents a summary of the responses provided by DAFA to the findings identified in this report. The complete responses received can be found at the ***Schedule of Findings, Questioned Costs, Management Responses, and Auditor's Rebuttals*** starting at page 20 of this report.

- (1) 2020-01: DAFA disagreed with the finding. DAFA stated that all payments to vendors and procurement transactions complied with their policies and procedures. However, DAFA acknowledged that the identified transactions were exceptional cases where they were compelled to hire vendors without bank accounts causing the need for cash payments and that it was not possible to obtain the Director's approval for field office procurement transactions.
- (2) 2020-02: DAFA disagreed with the finding. DAFA stated that it complied with their procurement manual as it relates to the purchase of goods and services. DAFA also stated that there was other documentation that can substantiate the validity of the purchases made.
- (3) 2020-03: DAFA partially agreed and disagreed with the finding. For the issues pertaining to the salaries paid, DAFA stated that certain personnel were hired for reasons they believe were for the betterment of the projects and that the actual expenditures did not exceed the 10% budget line limit. For the issues pertaining to purchases exceeding authorized amounts, DAFA acknowledged that extra items were purchased and that purchase documentation was missing but that the actual expenditures did not exceed the 10% budget line limit.
- (4) 2020-04: DAFA agreed with the finding. DAFA stated that system errors created mistakes but that the issue was corrected and that updated control policies have been implemented.

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INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Demining Agency for Afghanistan
Kabul, Afghanistan

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

Report on the Consolidated Special Purpose Financial Statement

We have audited the accompanying Consolidated Special Purpose Financial Statement of Demining Agency for Afghanistan ("DAFA") and the related notes to the Consolidated Special Purpose Financial Statement, with respect to four Grants, as listed in **Summary of Grants** of this report, for the period of April 1, 2018 through July 31, 2020.

Management's Responsibility for the Consolidated Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Consolidated Special Purpose Financial Statement in accordance with the requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Consolidated Special Purpose Financial 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 Consolidated Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Consolidated Special Purpose Financial Statement is free from material misstatement.

Government Auditing Standards require, among other things, that auditors performing audits in accordance with *Government Auditing Standards* obtain 24 hours of continuing professional education every two years, and the audit organization have an external peer review performed by reviewers independent of the organization at least once every three years. We subcontracted a portion of the audit to an independent chartered public accounting firm with an office located in Kabul, Afghanistan. The work performed by our subcontractor consisted of performing all fieldwork located in Afghanistan. Our subcontractor was not involved in the planning, directing or reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results

(Continued)

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of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the DAFA's preparation and fair presentation of the Consolidated Special Purpose Financial 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 DAFA'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 Consolidated Special Purpose Financial 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 Consolidated Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by DAFA under the four Grants, as listed in **Summary of Grants** of this report, for the period April 1, 2018 through July 31, 2020, in accordance with the basis of accounting described below.

Basis of Presentation

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 20, 2021 on our consideration of DAFA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is 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 DAFA's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Demining Agency for Afghanistan, the Department of State (State), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA), 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.

Conrad LLP

Lake Forest, California
April 20, 2021

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Special Purpose Financial Statement (Consolidated)

| | <u>Budget</u> | <u>Actual</u> | Questioned Costs | | | <u>Notes</u> |
|-------------------------------|--------------------|--------------------|-------------------|--------------------|-----------------|--------------|
| | | | <u>Ineligible</u> | <u>Unsupported</u> | <u>Total</u> | |
| Revenues: | | | | | | |
| Four Grants (Combined) | \$6,332,146 | \$5,292,192 | \$ - | \$ - | \$ - | (4) |
| Total revenues | <u>6,332,146</u> | <u>5,292,192</u> | - | - | - | |
| Costs incurred: | | | | | | |
| Personnel | 2,524,540 | 2,097,159 | 623 | - | 623 | (A) |
| Fringe benefits | 1,738,622 | 1,451,593 | 404 | - | 404 | (A) |
| Travel | 81,959 | 65,453 | - | - | - | |
| Equipment | 41,488 | 35,952 | - | - | - | |
| Supplies | 506,044 | 465,404 | 36 | 418 | 454 | (B) |
| Contractual | 39,770 | 29,849 | - | - | - | |
| Other direct costs | 897,447 | 740,972 | - | 4,779 | 4,779 | (C) |
| Indirect costs | <u>502,276</u> | <u>405,810</u> | <u>107</u> | <u>521</u> | <u>628</u> | (D) |
| Total costs incurred | <u>\$6,332,146</u> | <u>\$5,292,192</u> | <u>\$ 1,170</u> | <u>\$ 5,718</u> | <u>\$ 6,888</u> | |
| Outstanding fund balance | <u>\$ -</u> | <u>\$ -</u> | | | | |

Note: SPFS related to each specific grant is included in **Appendix A**.

See Notes to the Special Purpose Financial Statement
And Notes to Questioned Costs Presented on the Special Purpose Financial Statement
(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Notes to Special Purpose Financial Statement¹

(1) Status and Operation

Demining Agency for Afghanistan (“DAFA” or “Company”) is one of the Humanitarian Mine Clearance Non-Government Organization formed under the auspices of United Nation Office for the Coordination of Humanitarian Assistance to Afghanistan (“UNOCHA”) in June 1990.

Its head office is located at Qalaye Fatullah, Street No. 02, District No. 10, Kabul, Afghanistan with four field and project offices. DAFA currently managing a staff pool of 616 demining and support personnel structuring more than 37 demining teams, mostly located in the turbulent and extremely risky areas in East and South of Afghanistan.

DAFA is a major and well-known organization in the field of mine action in Afghanistan; DAFA is accredited for implementation of mine clearance projects by Directorate of Mine Action Coordination (“DMAC”) and registered with the Ministry of Economy of Islamic Republic of Afghanistan as a non-government organization (“NGO”).

Its main donor is the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (USDOS PM/WRA) and the United Nations.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (“Statement”) includes costs incurred under the four Grants for the Demining and Munitions projects for the period of April 1, 2018 through July 31, 2020. Because the Statement presents only a selected portion of the operations of the company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Demining Agency for Afghanistan. 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 Federal Grants within the audit scope. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Basis of Accounting

These special purpose financial statements have been prepared on modified accrual basis of accounting. On this basis grant income is recognized when received from the donor while expenses are recognized as expense when incurred rather than when paid. Expenditure amounts are presented under the terms of the Agreement. Such expenditures are recognized following the cost principles contained in 2 CFR 200 and 2 CFR 600, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Demining Agency for Afghanistan

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Notes to Special Purpose Financial Statement

(Continued)

Foreign Currency Conversion Method

Funds are received by DAFA in United States Dollars (“USD”) directly into DAFA’s bank account. For purposes of preparing the Statement, conversions from local currency to USD were not required. DAFA maintains the funds in USD and does not have a local Afghani account. When local currency is needed, the required funds are converted from USD to local currency and the amount is recorded in USD using the actual exchange rate from the bank on the date of the conversion.

(3) Revenue

Revenues on the Statement represent the amount of funds which DAFA has received from the United States Department of State (“USDOS”) for allowable, eligible costs incurred under the Grants during the period of performance.

(4) Costs Incurred by Budget Category

The budget categories and associated amounts presented reflect the budget line items presented within the final, approved contract budget adopted as a component of latest modification associated with each grant as of July 31, 2020.

(5) Status of Projects

As of July 31, 2020, all four Grants are completed and there is no outstanding fund balance under any of the four Grants. The revenue stated in the SPFS is prepared under the modified accrual basis of accounting.

(6) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the April 01, 2018 through July 31, 2020, period covered by the SPFS. Management has performed their analysis through April 20, 2021.

(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Notes to Questioned Costs Presented on the Consolidated Special Purpose Financial Statement²

(A) Personnel and Fringe Benefits

DAFA reported a total of \$2,097,159 for Personnel costs and a total of \$1,451,593 in related Fringe Benefits across all four Grants for the period of April 1, 2018 through July 31, 2020.

During our audit of these costs, we noted:

- Salary rates for certain employee positions exceeded the proposed and approved rates, which resulted in total ineligible costs of \$443. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.
- A job position was claimed as part of one of the Grants, but this position was not approved in the proposed and approved budget, which resulted in total ineligible costs of \$180. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.
- As a direct result of the ineligible Personnel costs noted above, the associated Fringe Benefits totaling \$404 are also ineligible costs. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we questioned a total of \$1,027 in ineligible costs.

(B) Supplies

DAFA reported a total of \$465,404 for Supplies costs across all four Grants for the period of April 1, 2018 through July 31, 2020.

During our audit of these costs, we noted:

- Unsupported items lacking documentation to support goods that were invoiced, received, and/or paid. This resulted in total unsupported costs of \$418. See Finding No. 2020-02 in the Schedule of Findings and Questioned Costs section of this report.
- Ineligible items for purchases made in excess of the purchase requisition amounts. This resulted in total ineligible costs of \$36. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.

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

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Notes to Questioned Costs Presented on Consolidated Special Purpose Financial Statement

(Continued)

As a result of the findings noted above, we questioned a total of \$36 in ineligible costs and \$418 in unsupported costs, which resulted in total questioned costs of \$454.

(C) Other Direct Costs

DAFA reported a total of \$740,972 for Other Direct Costs across all four Grants for the period of April 1, 2018 through July 31, 2020.

During our audit of these costs, we noted: Transactions for machine tires and lubricants lacked payee acknowledgement of receipt for these goods as required under DAFA's policy. This resulted in total unsupported costs of \$4,779. See Finding No. 2020-02 in the Schedule of Findings and Questioned Costs section of this report.

(D) Indirect Costs

DAFA reported a total of \$405,810 for Indirect Costs across all four Grants for the period of April 1, 2018 through July 31, 2020. The indirect costs associated with questioned costs identified in **Notes A through C** above resulted in total ineligible indirect costs of \$107 and total unsupported indirect costs of \$521. This resulted in total questioned indirect costs of \$628.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Demining Agency for Afghanistan
Kabul, Afghanistan

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 of Demining Agency for Afghanistan ("DAFA") representing revenues received and costs incurred under nine Grants, as listed in **Summary of Grants** of this report, awarded by the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA") supporting various demining and munitions clearance projects throughout Afghanistan, for the period April 1, 2018 through July 31, 2020, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated April 20, 2021 with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered the DAFA's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the DAFA's internal control. Accordingly, we do not express an opinion on the effectiveness of the DAFA's internal control.

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

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

(Continued)

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did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify a total of three deficiencies in internal control as described in the accompanying Schedule of Findings and Questioned Costs. Findings 2020-01 is considered to be a deficiency and Finding 2020-02 and 2020-03 are considered to be significant deficiencies.

DAFA's Response to Findings

DAFA's response to the findings identified in our audit is included verbatim at the ***Schedule of Findings, Questioned Costs, Management Responses, and Auditor's Rebuttals*** section. DAFA's response was not subjected to the auditing procedures applied in the audit of the Consolidated Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control, and the result of that testing, and not to provide an opinion on the effectiveness of the DAFA'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 Demining Agency for Afghanistan, Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA"), 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.



Lake Forest, California
April 20, 2021

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Demining Agency for Afghanistan
Kabul, Afghanistan

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 of Demining Agency for Afghanistan ("DAFA") representing revenues received and costs incurred for the five Grants listed Summary of Grants of this report, awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA") supporting various community based demining projects throughout Afghanistan for the period of April 1, 2018 through July 31, 2020, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated April 20, 2021 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DAFA's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned grant agreements, 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 four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2020-01, 2020-02, 2020-03, and 2020-04.

DAFA's Response to Findings

DAFA's response to the findings identified in our audit is included verbatim at the ***Schedule of Findings, Questioned Costs, Management Responses, and Auditor's Rebuttals*** section. DAFA's response was not subjected to the auditing procedures applied in the audit of the Consolidated Special Purpose Financial Statement, and accordingly, we express no opinion on it.

(Continued)

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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 Demining Agency for Afghanistan, Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA"), 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.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California
April 20, 2021

(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period of April 1, 2018 through July 31, 2020

Schedule of Findings, Questioned Costs, Management Responses, and Auditor's Rebuttals

Finding 2020-01:

Vendor cash payments and procurement transactions lacked proper approval which demonstrated a lack of adherence to DAFA's internal policies

Nature of Finding: Non-Compliance; Internal Control – Deficiency

Criteria:

DAFA's Finance Manual, states in part:

"2.1 Purpose of committing funds — All financial transactions must be verified and certified by duly designated committing and verifying officers..."

...3.3 Recording of Transactions — All vouchers are accounted for in numerical and chronological order and must be duly certified and verified..."

...3.10(4) Petty Cash Accounts — The petty cash limit is normally set at the equivalent of US \$2,000 with individual Payments not to exceed US \$500, in some exceptional cases a total amount of US \$2,000 can be paid from petty cash (against proper approve documents)..."

Part I.B of DAFA's Standard Operating Procedure ("SOP") Logistics and Procurements policy (Purchase Procedure), states in part:

"All the demand of purchase of any items is to be prepared on Requisition Form attached at "Annex "A". The Requisition Form is routed through logistics Manager after who will judge the justification of the demand and forward to the Director with his comments, once the purchase is approved, the Requisition form is brought to the Procurement Officer/Procurement Assistant."

2 CFR 200.302(b)(4), Financial Management, states, in part:

"Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303 Internal controls."

2 CFR 200.303, Internal Controls, states, in part:

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

Condition: Based on our testing of DAFA's adherence to their cash payment and procurement policies, we noted instances where transactions lacked proper approval. A combined sample of 478 transactions valued at \$442,741 out of a population of 2,224 valued at \$1,206,377 was judgmentally selected from the Supplies and Other Direct Costs categories of the SPFS. During our testing, we noted the following:

- For 13 transactions tested, DAFA's office Headquarters located in Kabul transferred funds via bank to its field offices, which are located outside of Kabul. The transferred funds were used to make cash payments for rental vehicle services. The payments in question each exceeded \$500. The field office staff made the cash payments to the individual vendors but did not obtain approval as each individual transaction was completed. The costs have not been questioned as there was other documented evidence to support that the cost had been properly incurred.

(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Schedule of Findings and Questioned Costs, Management Responses, and Auditor's Rebuttals

(Continued)

- For eight transactions tested, it was noted that Purchase Requisition Forms were not approved by the Director as required by DAFA's procurement policy. These transactions occurred in DAFA field offices located outside of Kabul. There are no questioned costs, as there was other documentation supporting the allowability and allocability of the costs.

Cause: DAFA believed the 13 cash transactions identified were not subject to the petty cash policies, as the funds were transferred to its field office for the specific purpose of renting vehicles, and therefore the payments did not technically come from petty cash. In addition, DAFA indicated that for field office payment and purchase transactions, it is sometimes challenging to obtain approval from appropriate management personnel such as the Director since the office is far from the Headquarters in Kabul. However, DAFA's Finance Manual and SOP do not include alternative policies and procedures for cash payments and purchases made outside of Kabul.

Effect: DAFA's lack of required approvals, and policies and procedures related to cash payments in excess of \$500 and purchases made outside of Kabul, may potentially result in the use of government funds for non-program related purposes and increases the risk of loss, theft, or embezzlement.

Questioned Costs: None

Recommendation: We recommend that DAFA develop policies and procedures, specifically for its field offices, on how to review and approve petty cash payments and obtain management approval on purchase requisitions prior to processing transactions. These policies and procedures should include backup processes covering purchases made when the approving officer is absent.

DAFA's Management Responses to Finding 2020-01²:

Finding 2020-01, Condition 1:

Criteria:

Our Finance Manual, states in part

4.5.1 Operation — Where banking facilities are not available or operation of a bank account is not feasible, exceptionally a cash account is authorized special procedures on safeguard of cash as detailed below should be followed.

...4.4. Storage of Cash in Safe or Vault under dual control

a) A strong safe with two separate locks, that is, key and combination lock, must be installed in a secure building. The room where the safe is kept shall be equipped with steel grills and steel doors individuals entering the building should have appropriate identification and state the reason for their visit to the entrance guard or receptionist.

b) The safe should be fireproof and located in an area where there is minimum of flooring and not too close to a door or window.

c) Access to keys and combinations should be divided between two senior staff that is the combination should be written down, put in a sealed envelope and kept by the individual not holding the keys.

² DAFA provided responses in a Microsoft Word document. All responses were copied and inserted verbatim.

(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Schedule of Findings and Questioned Costs, Management Responses, and Auditor's Rebuttals

(Continued)

...4.5. *Transportation of Cash*

- a) *Information regarding the movements of cash should be restricted to a minimum of individuals.*
- b) *The timing of cash movement should be as unpredictable as possible.*
- c) *It is generally preferable to move smaller amounts of cash frequently than to move larger amounts of cash less often.*

DAFA response:

*Above are our policies and procedure under exceptional cases as mentioned in your criteria 3.10 (4) **The petty cash limit is normally set at the equivalent of USD 2000 with individual Payments not to exceed USD 250, in some exceptional cases a total amount of USD 2000 can be paid from petty cash (against proper approve documents).***

We have complied with our above stated policies and procedures and maintained the underlying record of every monitory and non-monitory transaction per our manual requirement. Further, All the relevant documents have been provided the field auditors.

All noted 13 transactions are exceptional cases as the individual vendors did not have their bank accounts. We were compelled to hire their services as there were no other alternate to do so.

All the payments to vendors were made through our above sated policies and procedures. All the legal requirements were followed and documented.

Finding 2020-01. Condition 2:

Criteria:

Our Finance manual, states in part

2.2. Functions of committing and Verifying Officers — “The authority granted to committing and verifying officers is personal and cannot be further delegated. The function of verifying and committing officer cannot be combined. In exceptional cases, when an alternative is not available or feasible, a committing officer may also perform the verification function.

...2.3. *Responsibilities of Committing Officers —*

- a) *Ensure that the appropriate authorizations are in place. Certify that all expenditures are incurred in accordance with the purpose for which the funds are allocated and that funds are available for such disbursement.*
- b) *Ascertain that there are sufficient funds in the bank account or safe to make the payment.*
- c) *Determine whether the proposed commitments or payment are correct and are in accordance with financial regulation, rules and policies and planned activities.*
- d) *Confirm that the goods /services were received and rendered (as per receiving and inspection reports) the quality and quantity requested (as per purchase order) and that the program is billed (as per invoice) for the correct amount.*
- e) *Ensure that cash receipts and payment are recorded under the correct accounts (budget lines, Advance Recoverable Locally, (ARL) replenishment, gains/losses on exchange, and interest income.)*
- f) *The signature of the committing officer comes after that of the verifying officer.*
- g) *The responsibilities assigned to committing officer or alternate committing officer cannot be further delegated. Committing officer sign on their own name, no one should sign ‘for’ a committing officer.*

(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Schedule of Findings and Questioned Costs, Management Responses, and Auditor's Rebuttals

(Continued)

...2.4. Responsibilities of verifying officers —

2.4.1 Verify that the payment has not been previously made.

2.4.2 Ensure that the payment is substantiated by proper documentation and that it is in accordance with the term of the contract.

2.4.3 Ensure that the payment is made against a recorded commitment entered into by the designated committing officer.

2.4.4 Maintain updated and accurate records on commitment and /or payment authorizations to determine funds availability.”

2.4.5 Ensure that no other information is available which should prevent the payment being made e.g. whether the same invoice has already been paid.

DAFA response:

DAFA director is the verifying officer. In exceptional cases, when an alternative is not available or feasible, a committing officer may also perform the verification function.

All noted 8 transaction the purchase requisitions were verified by the committing field officer outside the Headquarter under the exceptional cases. it was impossible to obtain the director approval as the field office is very far from the headquarter and the transaction/activity were required to be completed as soon as possible due to its urgency.

All the legal requirements were followed and documented in these regards. In esteemed emergency cases (exceptional cases) the committing officer is authorized to sign the purchase requisition. Nevertheless, the director checks the procurement process of such transaction.

We have complied with our above stated policies and procedures and maintained the underlying record of every transaction per our manual requirement. Further, All the relevant documents have been provided the field auditors.

Auditor's Rebuttal to Management's Responses to Finding 2020-01:

DAFA highlighted the exceptional nature of the identified transactions, but the policies and procedures in their response do not address the lack of underlying or alternative controls for exceptional cases related to petty cash and management approvals occurring in field office transactions. By developing more specific policies and procedures on how to process, review, and approve field office payments, such as what defines exceptional cases and how exceptional cases should be approved, as well as develop procedures to have a backup approving officer when the approving officer is absent, DAFA can strengthen compliance within their control environment. As such, our finding, classification of finding, and recommendation remain unchanged.

(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Schedule of Findings and Questioned Costs, Management Responses, and Auditor's Rebuttals

(Continued)

Finding 2020-02:

DAFA lacked sufficient evidence to support the adequacy of costs incurred

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

Criteria:

DAFA's Finance Manual, states in part:

“3.4 Signature of the Payee — The payee shall sign on the voucher acknowledging the receipt of the fund if the payment is thru Cheques and/or cash...”

...3.5 Supporting Documents — For all payment, the original invoice dully certified and/or other supporting documents shall be attached to the vouchers...”

...3.6 Certification of Goods and Services — Before a payment is made, confirmation that goods were received in good condition/services rendered satisfactorily according to the purchase order and/or contract must be obtained. Then the payment is made in accordance with the terms of the contract or related commitment. This confirmation shall be provided by the individual receiving the services or goods (for Goods a store receipt from logistics office)...”

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

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

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

Condition: During our testing to determine if costs were adequately supported, we noted the following:

- (1) Other Direct Costs. We judgmentally selected a sample of 210 transactions valued at \$233,240 out of a population of 952 valued at \$740,972 During our testing, we noted four transactions where there was no evidence the vendor/payee acknowledged receipt of payment. The transactions identified included machine tires and lubricants totaling \$4,779.
- (2) Supplies. We judgmentally selected a sample of 268 transactions valued at \$209,501 out of a population of 1,272 valued at \$465,404. During our testing, we noted:
 - a. One transaction lacked an original vendor invoice for supplies totaling \$95.
 - b. Two invoices, paid by DAFA, were not issued to or addressed in DAFA's name. The transactions totaled \$86.
 - c. Two transactions lacked documentation demonstrating DAFA received goods prior to vendor payment. The items identified totaled \$237.

Cause: The causes for the aforementioned conditions are as follows:

- (1) DAFA did not properly adhere to its Finance Manual due to weakness in management control and oversight and did not always obtain all required documentation.
- (2) DAFA did not have an internal policy that specifically required that vendor invoices be issued/addressed to DAFA in order for them to be paid.

(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Schedule of Findings and Questioned Costs, Management Responses, and Auditor's Rebuttals

(Continued)

Effect: DAFA's inability to demonstrate costs incurred were supported with required documentation increases the risk that the government paid for items that were not received, or were unrelated to the grant.

Questioned Costs: Unsupported questioned costs identified totaled \$5,718, of which \$521 represents associated indirect costs.

Recommendation:

- (1) We recommend that DAFA either provide PM/WRA with documentation supporting purchases such as - invoices supporting payments; vendor acknowledgment cash payments were received; documentation supporting receipt of goods prior to payment; and evidence invoices not addressed to DAFA were allocable to the program - or return \$5,938 in unsupported costs.
- (2) We recommend that DAFA develop policies and procedures that ensure procurement documentation is completed in compliance with DAFA's Finance Manual and costs are allocable to the program and train staff on these procedures.
- (3) We recommend that DAFA develop an internal policy that requires all vendor invoices to be addressed to DAFA prior to payment and an internal memo informing all employees to strictly adhere to the newly developed policy.

DAFA's Management Responses to Finding 2020-02²:

Finding 2020-02, Condition 1:

Criteria:

Our Finance manual, states in part

3.6. Certification of Goods and services — "Before a payment is made, confirmation that goods were received in good condition/services rendered satisfactorily according to the purchase order and/or contract must be obtained. Then the payment is made in accordance with the terms of the contract or related commitment. This confirmation shall be provided by the individual receiving the services or goods (for Goods a store receipt from logistics office)."

DAFA Response:

All noted four transactions has full procurement supports documents per above stated criteria 3.6 (such as Purchase Requisition, Request for Quotations, Quotations, Purchase order, Purchase Committee, GRN, inspection report and Invoice from supplier). The signed Invoice is issued from the suppliers/vendor and the goods are delivered to DAFA premises. The suppliers issue the quotations and the purchase invoices which confirm the purchases and receipt of money by the suppliers/vendors and our GRN issued from store keeper further confirms the goods delivery to DAFA, this is the standards practice of business/purchase.

Further, the purchase invoice has the sign and stamp of the supplier which confirm the receipt of money by the suppliers/vendors and purchase of goods.

(Continued)

Demining Agency for Afghanistan (DAFA)

Four Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

For the period April 1, 2018 through July 31, 2020

Schedule of Findings and Questioned Costs, Management Responses, and Auditor's Rebuttals

(Continued)

Finding 2020-02. Condition 2:

Condition 2a:

Criteria:

Our procurement manual, states in part

...C. The limit of purchase will be as follows:

- a) procurement officer/Procurement Assistant can purchase items up to Afs5000 Equivalent to 100 USD without the other two members of purchase committee. The procurement officer will make purchases after exploring the market for price and quality.

DAFA Response:

We are working in remote and rural areas and most of the shops don't have bill/ invoices and for some small purchase we have to use a payment vouchers as a bill act as internal vendor invoice, for these purchase the payment vouchers of DAFA is available and signed by purchase committee and all other purchase documents are available for these transactions.

The one noted transaction fall under this category. For every such transactions our procurement officer explores the market for lowest price with best quality.

Condition 2b:

DAFA Response:

We assigned the purchase committee to purchase the goods. Sometime the vendor uses the person's name instead of organization name in the invoice. Similar in these noted two cases the name of purchase committee member is mentioned in the invoice instead of DAFA.

Condition 2C:

DAFA Response:

Some time we purchase goods on credit in field and cannot pay to the vendor due to shortage of liquid cash. In such cases we receive the goods and pay to the vendor later on. This is the standard business practices on credit bases. Besides, in Afghanistan generally the people use and practice the Solar year date on documents and in rural areas most of the people are not much updated / used with Georgian dating and sometimes making mistake in date.

The two-item noted are exactly the same cases, based on above stated explanation, we suggest the cost should be removed from the ineligible question cost.

Auditor's Rebuttal to Management's Responses to Finding 2020-02:

Notwithstanding DAFA's response, the transactions in question are missing key procurement documentation that fully demonstrates the validity of the purchase:

- Condition 1 - DAFA stated that the questioned transaction invoices were signed and stamped by the supplier/vendor which confirms the receipt of payment by the supplier/vendor. During our review, we noted that the questioned invoices were either stamped "Paid" by DAFA but were missing a vendor signature for the acknowledgement of payment or were missing both a "Paid" stamp and a signature from the vendor acknowledging the receipt of payment. As such, DAFA was not in compliance with Section 3.4 of DAFA's

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Finance Manual and there was insufficient evidence to demonstrate the vendors received the payment for the purchases.

- Condition 2a – The transaction in question did not contain an original invoice from the vendor. DAFA stated they generate its own internal invoice referred to as a Payment Voucher (Bill). An internal invoice is not adequate support for cost transactions and cannot be accepted as a vendor's invoice. As such, DAFA was not in compliance with Section 3.5 of DAFA's Finance Manual.
- Condition 2b – One of the questioned invoices was just addressed to "Customer" and another invoice was addressed to an individual that was not a member of the Purchase Committee but an employee of DAFA. Invoices addressed to an individual or employee rather than the contractor raise doubt that the costs were incurred for the purpose of the grant as stated in the finding's effect.
- Condition 2c – DAFA did not address this finding. DAFA's response discussing the dating of documents is not relevant to this finding as the finding relates to the lack of procurement documentation, such as a Goods Receipts Note which DAFA had agreed was missing during our engagement communications.

The absence of key documentation led to an inability to fully demonstrate whether the costs incurred were properly supported by all documentation required by their policies and procedures. It remains imperative that DAFA personnel should adhere to their procurement processes and work with vendors to include all pertinent attributes of each procurement to demonstrate the allowability and allocability of the costs to a project. As such, our finding, classification of finding, and recommendation remain unchanged.

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Finding 2020-03:

DAFA paid for salaries that were not supported by the budget and purchases exceeding authorized amounts

Nature of Finding: Non-Compliance; Internal control – Significant Deficiency

Criteria:

DAFA's Finance Manual, states in part:

"2.3 Responsibilities of Committing Officers —

d) Confirm that the goods /services were received and rendered (as per receiving and inspection reports) the quality and quantity requested (as per purchase order) and that the program is billed (as per invoice) for the correct amount...

...3.6 Certification of Goods and Services — Before a payment is made, confirmation that goods were received in good condition/services rendered satisfactorily according to the purchase order and/or contract must be obtained. Then the payment is made in accordance with the terms of the contract or related commitment. This confirmation shall be provided by the individual receiving the services or goods (for Goods a store receipt from logistics office)..."

2 CFR 200.303, Internal Controls, states in part:

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

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

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

(b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items..."

2 CFR 200.405(a), Allocable Costs, states in part:

"A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
- (3) Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principals in this subpart."

Department of State's Standard Terms and Conditions Section XIII, Prior Approval Requirements, states in part:

"For non-construction Federal awards, non-Federal entities must request prior approvals from Federal awarding agencies for one or more of the following program or budget-related reasons:

...(f) Rebudgeting more than 10% of the total approved award between direct cost categories"

Condition: During our testing of direct project costs, we noted the following:

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- (1) A sample of 130 transactions valued at \$516,450 out of a population of 553 valued at \$2,097,159 was judgmentally selected from the Personnel category of the SPFS. During our testing, we noted DAFA paid employees at rates higher than what was approved in the budget. Additionally, DAFA employed a guard whose position had not been included in the approved budget. This resulted in total ineligible costs of \$1,027, which includes related Fringe Benefits as illustrated below:

| Position | Rate as Tested | Rate as Approved in the Budget | Over (Under) | No. of Issues | Total Variance |
|---|----------------|--------------------------------|---------------|---------------|------------------------|
| <i>Grant No. S-PMWRA-17-GR-1062</i> | | | | | |
| Community Mobilizer | \$ 450 | \$ 360 | \$ 90 | 2 | \$ 180 |
| Guard (position not approved in budget) | 180 | - | 180 | 1 | 180 |
| Fringe Benefits | | | | | <u>190</u> |
| Subtotal | | | | | 550 |
| <i>Grant No. S-PMWRA-18-GR-0019</i> | | | | | |
| Deminor | 180 | - | 180 | 1 | 180 |
| Fringe Benefits | | | | | <u>146</u> |
| Subtotal | | | | | 326 |
| <i>Grant No. S-PMWRA-19-GR-0010</i> | | | | | |
| Section Leader | 223 | 180 | 43 | 1 | 43 |
| Deminor | 220 | 180 | 40 | 1 | 40 |
| Fringe Benefits | | | | | <u>68</u> |
| Subtotal | | | | | 151 |
| Subtotal - Personnel | | | | | 623 |
| Subtotal - Fringe Benefits | | | | | 404 |
| Totals | | | \$ 533 | 6 | \$ <u>1,027</u> |

- (2) A sample of 268 transactions valued at \$209,501 out of a population of 1,272 valued at \$465,404 was judgmentally selected from the Supplies category of the SPFS. During our testing, we noted three transactions where the number of goods purchased were more than what was requested in the purchase requisition form for a total of \$36.

Cause: The causes for the aforementioned conditions are as follows:

- (1) DAFA stated that the higher salary rates were necessary due to the importance of the positions. Additionally, they noted the employment of the additional guard that was not included in the approved budget was a response to the security situation in Afghanistan. DAFA maintained that both personnel issues were reasonable costs.
- (2) DAFA asserted that they had flexibility to make minor adjustments to the proposed budget if the adjustments were not greater than 10% of total program costs. However, we believe that DAFA misunderstands the applicability of the Department of State's standard Terms and Conditions Section XIII. While Section XIII allows for the rebudgeting of [costs] more than 10% of the total approved award between direct cost

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categories, it is not meant to override budget requirements that fall under the 10% threshold. This finding addresses costs subject to budget stipulations dictating authorized rates of pay and employee positions which require consideration independent of Section XIII rebudgeting allowances.

- (3) DAFA's purchase committee mistakenly authorized the purchase of additional supply quantities that were not previously requested.

Effect: The U.S. Government paid for costs that were not approved in the applicable project budget and for costs that were not pre-authorized by DAFA. As such, this resulted in ineligible costs being claimed.

Questioned Costs: Ineligible costs identified totaled \$1,170, of which \$107 represents associated indirect costs.

Recommendation:

- (1) We recommend that DAFA obtain a waiver from PM/WRA for salaries in excess of and positions not included in the budget or return \$1,170 in ineligible costs.
- (2) We recommend that DAFA provide additional training to its personnel to ensure understanding and compliance with the Department of State's Standard Terms and Conditions and applicable CFR provisions.
- (3) We recommend that DAFA submit rate change modifications to the State for approval or request a budget deviation waiver in a timely manner.
- (4) We recommend that DAFA develop policies and procedures for ensuring purchases are made in accordance with what was requested.

DAFA's Management Response to Finding 2020-03²:

Finding 2020-03-Condition 1: DAFA paid for salaries that were not supported by the budget:

DAFA Response:

Community Mobilizer.

The Cluster Munition project was implemented in different provinces (Wardak, Takhar, Nangrahar and Paktya) which these provinces were with high risk, strong community mobilization and support was required. We had two mobilizers in budget but we assigned one influential mobilizer who had good relation and information in area and he was not willing to work with DAFA with low salary and therefore instead of 2 mobilizers we recruited one and increased his salary. this is for successful completion of the project only.

Security Guard.

For custody of explosives, we had to temporary recruit one additional guard from community in Takhar, with the security threats in the area it was necessary to have one additional guard for the explosives bunker, Due to the worse security situation in Afghanistan the protection of the explosives is very important and we did for the safety purpose and smooth running of the project only.

According to part XIII. "Prior Approval Requirements" of standard terms and condition of the agreement. For non-construction Federal awards, non-Federal entities must request prior approvals from Federal

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awarding agencies for one or more of the following program or budget-related reasons: (f) Re-budgeting more than 10% of the total approved award between direct cost categories.

We have not exceeded the actual expenditure by 10% of approved budget in any cost categories. Thus, we suggest that this amount should not be considered as ineligible question cost.

Finding 2020-03. Condition 2: purchases exceeding authorized amounts:

DAFA Response:

In one instance of S-PMWRA-19-GR-0010 purchase committee purchased 4 brushes extra then requested which cost 140 AFN (35x4) equivalent to \$1.83/-. However, we have not crossed the budget limit overall. The overall expenses of the project are according to the limit of the budget.

In 2nd instance of S-PMWRA-19-GR-0019, purchase committee purchased 1 medical emergency kit extra then requested which cost \$7.64/-. However, we have not crossed the budget limit overall. The overall expenses of the project are according to the limit of the budget.

In 3rd Instances of S-PMWRA-18GR0018, The GRN contains receipt of 60 Liter of Kerosene. However, only 30 Liter is requested in PRF and 1 Invoice is found (invoice on DAFA format) with supporting documents. (1 Liter = 60 AFN) (Total AFN 1,800 / \$26.05),

We purchased Kerosene oil for multiple purpose such as for heating the rooms, for cooking range in field, for lubricating the equipment and tools. Separate purchase requisition is issued for each purpose while single purchase is made for kerosene oil due to handling and carrying issue. Similarly, single GRN is issued as we have single store and store keeper in field. Same is the case here. Two separate purchase requisition of 30 liters each are issued and all 60 liters were purchased under two invoices so consequently single GRN of 60 liters is issued. One RFP was provided to the field auditor while the reason of missing RFP was shared with the field auditor at that time. The reason was, misplace of RFP while physical moving of the project support documents from field office to DAFA Headquarter.

Auditor's Rebuttal to Management's Responses to Finding 2020-03:

It was communicated to DAFA that this particular finding is not in direct correlation with whether or not costs incurred under certain cost categories exceeded the 10% threshold. The finding states that DAFA claimed certain personnel costs that had exceeded the approved rates or that were not in the applicable approved budget. As cited in the Criteria section of the finding, personnel payments and purchases should be in conformity with DAFA's policies and procedures and the applicable CFR requirements. As such, our finding, classification of finding, and recommendation remain unchanged.

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Finding 2020-04: **DAFA did not adhere to Afghanistan Tax Laws**

Nature of Finding: Non-Compliance

Criteria:

Section 16 - Additional Bureau/Post Specific Requirements, subsection n) of the Grant Agreement terms, states:
"All award recipients must comply with applicable local and national laws in the host countries in which this award is implemented."

Article 58 of Afghanistan Income Tax Law (Withholding and payment of tax), states:

"All natural or legal profit and non-profit persons, ministries, state enterprises, municipalities and other State departments employing two or more employees in any month of a year shall be required to withhold taxes as provided in Article 4 of this Law from payment of salaries and wages and pay the amount withheld to the Government account."

Article 72 of Afghanistan Income Tax Law (Withholding tax on contractors), states:

"(1) Persons who, without a business license or contrary to approved by- law, provide supplies, materials, construction and services under contract to government agencies, municipalities, state entities, private entities and other persons shall be subject to 7 percent fixed tax in lieu of income tax. This tax is withheld from the gross amount payable to the contractor.

(2) Persons who have a business license and provide the services and other activities mentioned in paragraph (1) of this Article to the specified entities shall be subject to 2 percent contractor tax. The tax levied by this paragraph is creditable against subsequent tax liabilities.

(3) The tax mentioned in paragraph (1) and (2) of this Article shall be withheld by the payer from payment and shall be transferred to the relevant account within ten days. Contractors subject to this Article shall be required to, upon signing the contract, send a copy thereof to the relevant tax administration. Natural persons who, according to provision of paragraph (1) of Article 17 of this Law, earn taxable salaries shall be excluded from this provision."

Guide 21 of Afghanistan Income Tax Law (Withholding tax on contractor services), states in part:

"A minimum threshold for withholding tax under Article 72 is AFN 500,000. Transactions below this threshold are not subject to withholding income tax. However, if the aggregate of payments to a legal or natural person in a fiscal year exceed or is likely to exceed this threshold, the tax shall have to be withheld from all payments."

Condition: During our testing of Personnel, Supplies, and Other Direct Costs under the SPFS line items totaling 608 combined sampled transactions, we noted one transaction where DAFA did not withhold taxes from employee salaries in the month of May 2018 and also noted four transactions where DAFA did not withhold taxes from contractor services as required by the Afghanistan Tax Law. In the case of the contractor services, it was confirmed that DAFA had acquired services in excess of AFN 500,000 from the contractors in question during the applicable fiscal year.

Cause: DAFA misinterpreted the Afghanistan Tax Law requirements and was under the impression that only single purchases over AFN 500,000 would require tax to be withheld. DAFA also misinterpreted the tax law as it relates non-governmental organizations, stating that such organizations are exempt from income tax which is correct;

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however, applicable provisions of Article 72 would still apply to non-governmental organizations withholding tax on contractor services. Lastly, DAFA mistakenly did not deduct taxes from employee salaries for the month of May 2018 due to a database error which did not process correctly.

Effect: Not withholding and reporting applicable local tax is a violation of the host countries tax law requirements, which resulted in non-compliance with the mandated requirements set forth in the terms of the Department of State awards.

Questioned Costs: None

Recommendation:

- (1) We recommend that DAFA implement policies and procedures to ensure compliance with all applicable Afghanistan Tax Laws.
- (2) We recommend that DAFA train its personnel on how to properly track contractor services which will assist in determining if a contractor exceeds the AFN 500,000 threshold as specified in the Afghanistan Tax Law.

DAFA's Management Responses to Finding 2020-04²:

DAFA Response:

It is the requirement of the Afghanistan Tax Law to deduct the tax from vendors having more than 500,000/- AFN invoice value in aggregate for the whole year. We deducted the tax per law from vendors whose single invoice is greater than 500,000/- AFN. The issues are due to multiple invoices of vendors during the year having aggregate value of over 500,000/- AFN. We have updated our control policies and insert new control to detect the vendors whose invoice value are increasing from 500,000/- annually. We are Now deducting the tax from vendors whose invoice values are increasing from 500,000/- per annum, per tax law.

Four noted transaction of contractor- *We do Agree, Mistakenly the tax was not deducted and it was data base error which has not processed it correctly. The problem was deducted in the same month of this transaction and corrected accordingly.*

Auditor's Rebuttal to Management's Responses to Finding 2020-04:

As DAFA agrees that the appropriate taxes had not been withheld for the transactions identified and that issues have been subsequently corrected and that policies have been updated, our finding, classification of finding, and recommendations remain unchanged.

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Status of Prior Audit Findings

We requested prior audit reports from DAFA, SIGAR, and conducted additional research for any prior engagements including audits, reviews, and evaluations pertinent to DAFA's activities. We identified twelve prior audit reports conducted by various local Afghanistan Chartered Accounting firms and one prior SIGAR audit report, Financial Audit 20-04. Based on our review of these reports, we identified 17 prior findings that we believe could have material effect on the SPFS and other financial data significant to the audit objectives. Our review procedures included a follow up discussion with DAFA's management, as well as conducting similar tests surrounding the identified areas during our current audit. We have summarized the results of our procedures below:

Report: Audited Financial Statement for DAFA's Project Title: Zhari-Panjwai Community Based Demining Project, Grant No. S-PMWRA-13-GR-1008, for the Period: March 15, 2013 – September 2016

Finding: DAFA did not deduct and withhold tax from suppliers/contractors as required by Afghanistan income tax law. The auditors recommended DAFA's compliance with all applicable taxation law of Afghanistan.

Status: DAFA stated they have started to withhold taxes on all applicable transactions since the finding was identified in 2014. However, no policy and procedures were implemented, nor additional training conducted to ensure DAFA will properly withhold tax on all applicable transactions. In addition, during our testing, we have still identified numerous transactions incurred after 2014 where taxes were not properly withheld. This finding has not been properly corrected. See Finding 2020-04 of this audit report.

Report: Audited Financial Statement for DAFA's Project Title: Baghlan Demining Project in Afghanistan, Grant No. S-PMWRA-15-GR-1010, for the Period: October 1, 2014 – September 30, 2015

Finding: DAFA did not prepare Personnel Activity Reports ("PAR") as required by OMB A-122. The auditors recommended DAFA to implement controls to record after-the-fact effort reporting mechanism and maintain PAR for payroll costs charged to the project.

Status: DAFA stated that salaried employees who are 100% dedicated to a specific project do not require PAR. For DAFA's headquarter employees who worked on multiple projects, DAFA has created an additional form for PAR where employees can properly track their time. We reviewed the PAR template that DAFA implemented during our onsite visit. During our testing, we did not identify any such issues. Therefore, this finding has been properly corrected and not repeated.

(Continued)

Finding: DAFA did not update their travel policy for top-up cards for mobile phones and local travelling. The auditors recommended the policy for employee local traveling and top-up cards in practice should be fully documented in the project manual.

Status: DAFA stated the Travel policy was documented in the Transport Standard Operating Procedures (“SOP”) and just did not add it in their Administrative SOP as well. It has since been added to the Administrative SOP in 2017 when the issue was identified. We reviewed the Administrative SOP and noted that top-up cards were included in the SOP. This finding has been properly corrected and not repeated.

Report: Audited Financial Statement for DAFA’s Project Title: Road Demining Project of Kamal Khan Dam, Nimroz Afghanistan, Grant No. S-PMWRA-17-GR-1053, for the Period: October 1, 2017 – May 15, 2018

Finding: Some suppliers’ invoices and quotations were not addressed to DAFA. The auditors recommended all vendor’s invoices should be addressed to DAFA.

Status: DAFA stated it assigned a committee to oversee the processing of each purchase. DAFA stated that they tried their best to ensure all invoices were addressed to DAFA. However, for some minor and small purchases, mainly from rural areas, the invoices continued to be addressed in the name of a member on their purchase committee. Nonetheless, each purchase was supported with all required documents. During our testing, we identified instances where vendor invoices were not issued/addressed to DAFA. Therefore, this finding has not been properly corrected. See Finding 2020-02 of this audit report.

Report: Audited Financial Statement for DAFA’s Project Title: Afghanistan Cluster Munitions Clearance Project 17, Grant No. S-PMWRA-17-GR-1062, for the Period: September 25, 2017 – September 24, 2019

Finding: Salary rate claimed exceeded the authorized pay rate that was proposed and approved in the Grant budget.

Status: DAFA stated that it operates in security risk areas all the time during these projects. For this purpose, they hired only trusted employees. DAFA further stated that for all audited projects, they hired the employees who worked with them since establishment of DAFA. Those who are experienced and more trusted employees demand a higher salary. They have paid them USD 15-20 increased salary than approved budget due to their deserving position and above stated reason. However, in total, they have not paid the salaries more than the approved budget and manage all the salaries within the approved budget. The current audit engagement identified similar issues, as such it appears this issue has not been properly corrected. See Finding 2020-03 of this audit report.

Finding: Salary was paid for a job position which was not authorized/approved in the budget.

Status: DAFA stated that in the donor approved budget there were twelve positions for security guards and one guard position was changed to a storekeeper. However, the prime objective of the position remains the same i.e. to keep the equipment and other personnel safe from any theft or any other risk. The current audit engagement identified similar issues, as such it appears this issue has not been properly corrected. See Finding 2020-03 of this audit report.

Finding: A generator was purchased under the project but was not an approved item in the budget.

(Continued)

Status: DAFA stated that in their field office of this project they were facing a huge electricity breakdown and in order to cover this issue, they purchased a small generator for our field office. DAFA further stated that they had a separate budget of office equipment in the donor approved budget and the cost was charged to this budget line. The current audit engagement did not identify any similar transactions. As such, we believe this was an isolated instance and this issue has been properly corrected and not repeated.

Finding: Lack of supporting documentation and information, such as travel request and Good Receipts Note, for processing of payments to vendors. Internal control issue.

Status: DAFA stated that due to a huge number of financial documents for this grant, in some instances a few support documents may be misplaced or provided in a different format. The travel authorization was available, but it was in a different format. The current audit engagement identified similar issues as it relates to missing Goods Receipt Note and have questioned the costs. As such, it appears this issue has not been properly corrected. See Finding 2020-02 of this audit report.

Finding: DAFA paid \$200-\$300 as a fuel expense to rented vehicle contractors. While deducting the tax from the rent amount of the vehicle, DAFA also deducted the tax amount from the fuel expenses as well. Fuel expenses are the responsibility of DAFA at any cost and hence tax should not be deducted/withheld from the fuel expenses paid to the vendors/suppliers. Compliance issue.

Status: DAFA stated that they had a fixed amount of rent contracts with owners of vehicles from relevant communities and from the total contracted rent amount DAFA deducted and paid tax to the Ministry of finance as per the tax law. Due to the budget structure and breakdown of this project, DAFA split the cost as rent and fuel to match the budget lines. The tax on fuel cost is not considered applicable if paid based on the actual fuel consumption, logbook, and fuel bills. For this project, a fixed amount was paid to vehicle owners as per attendance sheets and contract, therefore the tax was deducted from total amount. DAFA also stated that it would develop its budget as one-line budget for rent of vehicles which will include fuel as well. The current audit engagement did not identify any similar issues; however, issues were identified as it relates to DAFA not withholding appropriate taxes. As such, it appears that a compliance issue in regard to tax withholding remains. See Finding 2020-04 of this audit report.

Report: Audited Financial Statement for DAFA's Project Title: Zhari Kandahar, Community Based Demining Project Afghanistan, Grant No. S-PMWRA-18-GR-0019, for the Period: April 1, 2018 – March 30, 2019

Finding: DAFA did not withhold taxes from a payment made to vendor/supplier. Compliance issue.

Status: DAFA stated that they properly maintain and deduct all the withholding tax from vendors, contractors, and employees. In one instance the tax was not deducted by finance from a uniform supplier. The current audit engagement identified similar issues. As such, it appears that a compliance issue in regard to tax withholding remains. See Finding 2020-04 of this audit report.

Report: Financial Audit of Costs Incurred, Grant No. S-PMWRA-19-GR-0010, for the Period: May 1, 2019 – April 30, 2020

Finding: There was no Purchase Requisition Form and Good Receipts Note for the purchase of fuel for a generator. In addition, there was no Service Receipt Note provided for internet service charges.

(Continued)

Status: DAFA acknowledged the issues and noted that it will take such observations into consideration in future processes. The current audit engagement identified similar issues as it relates to missing Goods Receipt Notes and have questioned the costs. As such, it appears this issue has not been properly corrected. See Finding 2020-02 of this audit report.

Finding: DAFA did not withhold taxes from rent paid to the landlord. Compliance issue.

Status: DAFA acknowledged the issue and noted that it will take such observations into consideration in future processes. The current audit engagement identified similar issues. As such, it appears that a compliance issue in regard to tax withholding remains. See Finding 2020-04 of this audit report.

Report: Financial Audit of Costs Incurred, Grant No. S-PMWRA-19-GR-0019, for the Period: June 1, 2019 – July 31, 2020

Finding: The Attendance sheet/Activity sheet was missing for salary paid to a bunker security guard. In addition, there was no Service Receipt Note provided for generator repair and maintenance charges.

Status: DAFA acknowledged the issues and noted that it will take such observations into consideration in future processes. The current audit engagement identified similar issues as it relates to missing Goods Receipt Note and have questioned the costs. As such, it appears this issue has not been properly corrected. See Finding 2020-02 of this audit report.

Report: SIGAR Financial Audit 20-04, for the Period: March 15, 2013 – September 24, 2018

Finding No. 2019-01: Lacked evidence to demonstrate adherence to DAFA's employee and vendor cash payment policy and need improvement in cash payment documentation process. Internal control issue.

Status: DAFA partially disagreed with the audit finding stating that payments made in cash to employees and vendors were due to electronic bank payments not being practical and possible as these employees or vendors do not have bank accounts. However, DAFA updated their policies and procedures to ensure future payment will be made via electronic banking systems for employees and for vendors that are over the \$250 cash payment threshold. This issue has been properly corrected.

Finding No. 2019-02: DAFA did not provide a Personal Activity Report ("PAR") or timesheet for one sampled payroll cost and there was a lack of evidence showing receipt acknowledgement from employees for items distributed to personnel. Compliance and internal control issue.

Status: DAFA indicated that due to a large population of PAR's, it was possible that requested PAR's were misplaced. DAFA was able to provide a field attendance report of this employee. DAFA also indicated that items such as blankets and demining kits were DAFA's property and never owned by the employees therefore it does not require the employee's acknowledgement. For other items such as uniforms, DAFA agreed that it required employees' acknowledgement of these goods and was able to provide the acknowledgment. The current audit engagement identified similar issues where DAFA was unable to provide evidence to support the adequacy of the costs incurred. As such, it appears this issue has not been properly corrected. See Finding 2020-02 of this audit report.

Finding No. 2019-03: Salary rates and costs claimed exceeded or were not included in the approved budget resulting in ineligible costs Compliance and internal control issue.

(Continued)

Status: DAFA indicated that many of the items questioned were normal expenses for the Grants' operations the items were approved under a general budget category excess rates were due to unexpected changes through the life of the Grants, and that some of the items were misclassified. No further documentation was provided to evidence approval of the excess rates or costs claimed. The current audit engagement identified similar issues. As such, it appears this issue has not been properly corrected. See Finding 2020-03 of this audit report.

Finding No. 2019-04: DAFA did not withhold taxes from supplier purchases or from landlord for rent as required by the Afghanistan Tax Law. Compliance issue.

Status: DAFA did not provide a response to this finding. The current audit engagement identified similar issues. As such, it appears that a compliance issue in regard to tax withholding remains. See Finding 2020-04 of this audit report.

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| | Budget | Actual ¹ | Questioned Costs | | | Notes |
|---------------------------|--------------------|---------------------|------------------|-----------------|-----------------|-------|
| | | | Ineligible | Unsupported | Total | |
| Revenues: | | | | | | |
| S-PMWRA-17-GR-1062 | <u>\$2,167,146</u> | <u>\$1,127,192</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | (4) |
| Total revenues | <u>2,167,146</u> | <u>1,127,192</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Costs incurred: | | | | | | |
| Personnel | 887,020 | 465,753 | 360 | - | 360 | (A) |
| Fringe benefits | 619,074 | 328,580 | 190 | - | 190 | (A) |
| Travel | 36,245 | 17,809 | - | - | - | |
| Equipment | 41,488 | 35,952 | - | - | - | |
| Supplies | 61,922 | 20,449 | - | - | - | |
| Contractual | 17,810 | 9,104 | - | - | - | |
| Other direct costs | 343,962 | 186,368 | - | 4,779 | 4,779 | (C) |
| Indirect costs | <u>159,625</u> | <u>63,177</u> | <u>55</u> | <u>478</u> | <u>533</u> | (D) |
| Total costs incurred | <u>\$2,167,146</u> | <u>\$1,127,192</u> | <u>\$ 605</u> | <u>\$ 5,257</u> | <u>\$ 5,862</u> | |
| Outstanding fund balance | <u>\$ -</u> | <u>\$ -</u> | | | | |

¹ Costs incurred under this column are only for the period of September 25, 2018 through September 24, 2019. The costs associated with the previous period of September 25, 2017 through September 24, 2018 were already audited in SIGAR Audit FA 20-04.

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Special Purpose Financial Statement

(Continued)

| | Budget | Actual | Questioned Costs | | | Notes |
|---------------------------|--------------------|--------------------|------------------|---------------|---------------|-------|
| | | | Ineligible | Unsupported | Total | |
| Revenues: | | | | | | |
| S-PMWRA-18-GR-0019 | <u>\$1,000,000</u> | <u>\$1,000,000</u> | \$ - | \$ - | \$ - | (4) |
| Total revenues | <u>1,000,000</u> | <u>1,000,000</u> | - | - | - | |
| Costs incurred: | | | | | | |
| Personnel | 359,580 | 359,318 | 180 | - | 180 | (A) |
| Fringe benefits | 230,602 | 230,247 | 146 | - | 146 | (A) |
| Travel | 15,752 | 16,687 | - | - | - | |
| Equipment | - | - | - | - | - | |
| Supplies | 153,038 | 154,395 | 26 | 95 | 121 | (B) |
| Contractual | 21,960 | 20,745 | - | - | - | |
| Other direct costs | 136,395 | 135,950 | - | - | - | |
| Indirect costs | <u>82,673</u> | <u>82,658</u> | <u>36</u> | <u>10</u> | <u>46</u> | (D) |
| Total costs incurred | <u>\$1,000,000</u> | <u>\$1,000,000</u> | <u>\$ 388</u> | <u>\$ 105</u> | <u>\$ 493</u> | |
| Outstanding fund balance | <u>\$ -</u> | <u>\$ -</u> | | | | |

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Special Purpose Financial Statement

(Continued)

| | Budget | Actual | Questioned Costs | | | Notes |
|---------------------------|------------------|------------------|------------------|-------------|-----------|-------|
| | | | Ineligible | Unsupported | Total | |
| Revenues: | | | | | | |
| S-PMWRA-19-GR-0010 | <u>\$925,000</u> | <u>\$925,000</u> | \$ - | \$ - | \$ - | (4) |
| Total revenues | <u>925,000</u> | <u>925,000</u> | - | - | - | |
| Costs incurred: | | | | | | |
| Personnel | 381,780 | 376,662 | 83 | - | 83 | (A) |
| Fringe benefits | 267,126 | 268,422 | 68 | - | 68 | (A) |
| Travel | 12,216 | 12,608 | - | - | - | |
| Equipment | - | - | - | - | - | |
| Supplies | 60,060 | 61,446 | 2 | 76 | 78 | (B) |
| Contractual | - | - | - | - | - | |
| Other direct costs | 124,178 | 126,225 | - | - | - | |
| Indirect costs | <u>79,640</u> | <u>79,637</u> | <u>15</u> | <u>8</u> | <u>23</u> | (D) |
| Total costs incurred | <u>\$925,000</u> | <u>\$925,000</u> | \$ 168 | \$ 84 | \$ 252 | |
| Outstanding fund balance | <u>\$ -</u> | <u>\$ -</u> | | | | |

(Continued)

Demining Agency for Afghanistan (DAFA)

Nine Grants Awarded by Department of State, Bureau of Political-Military Affairs,
Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Demining and Munitions Clearance Projects throughout Afghanistan

Special Purpose Financial Statement

(Continued)

| | Budget | Actual | Questioned Costs | | | Notes |
|---------------------------|--------------------|--------------------|------------------|---------------|---------------|-------|
| | | | Ineligible | Unsupported | Total | |
| Revenues: | | | | | | |
| S-PMWRA-19-GR-0019 | \$2,240,000 | \$2,240,000 | \$ - | \$ - | \$ - | (4) |
| Total revenues | <u>2,240,000</u> | <u>2,240,000</u> | <u>-</u> | <u>-</u> | <u>-</u> | |
| Costs incurred: | | | | | | |
| Personnel | 896,160 | 895,426 | - | - | - | |
| Fringe benefits | 621,820 | 624,344 | - | - | - | |
| Travel | 17,746 | 18,349 | - | - | - | |
| Equipment | - | - | - | - | - | |
| Supplies | 231,024 | 229,114 | 8 | 247 | 255 | (B) |
| Contractual | - | - | - | - | - | |
| Other direct costs | 292,912 | 292,429 | - | - | - | |
| Indirect costs | <u>180,338</u> | <u>180,338</u> | <u>1</u> | <u>25</u> | <u>26</u> | (D) |
| Total costs incurred | <u>\$2,240,000</u> | <u>\$2,240,000</u> | <u>\$ 9</u> | <u>\$ 272</u> | <u>\$ 281</u> | |
| Outstanding fund balance | <u>\$ -</u> | <u>\$ -</u> | | | | |

(Continued)

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;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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