

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 23-27 Financial Audit

USAID's SERVIR Program in Hindu Kush-Himalaya: Audit of Costs Incurred by International Centre for Integrated Mountain Development



JUNE
2023

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 29, 2015, the U.S. Agency for International Development (USAID) awarded a \$7,000,000 cooperative agreement to the International Centre for Integrated Mountain Development (ICIMOD) to support the SERVIR program in Hindu Kush-Himalaya. The purpose of the agreement was to grow a network of government agencies, universities, and institutions in the eight regional member countries of the Hindu Kush-Himalaya region, including Afghanistan, that use geospatial information and tools to address environmental challenges.

USAID modified the agreement five times; the modifications changed the total funding to \$6,320,000 and extended the period of performance from September 30, 2020, through June 30, 2021.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr) reviewed \$3,100,024 in costs charged to the agreement from October 1, 2015, through June 30, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in the ICIMOD's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether the ICIMOD has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of the ICIMOD's Special Purpose Financial Statement (SPFS). See Davis Farr's report for the precise audit objectives.

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

June 2023

USAID's SERVIR Program in Hindu Kush-Himalaya: Audit of Costs Incurred by International Centre for Integrated Mountain Development

SIGAR 23-27-FA

WHAT SIGAR FOUND

Davis Farr identified one material weakness and three significant deficiencies in ICIMOD's internal controls. The auditors also identified four instances of noncompliance with the terms of the agreement. For example, the auditors found that ICIMOD did not provide supporting documentation and evidence of payments for 70 of 300 tested direct labor transactions. In addition, the auditors determined that ICIMOD did not consistently document its exchange rate calculation when converting currencies. In another example, the auditors tested transactions for 32 of its 49 vendors to determine whether ICIMOD performed an exclusion or anti-terrorist check, but ICIMOD did not provide any documentation showing that it completed the required checks. The auditors took an additional step and independently performed exclusion or anti-terrorist checks of the vendors in question and did not identify their names on the lists. SIGAR notified ICIMOD of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and instances of noncompliance, Davis Farr identified \$61,574 in total questioned costs consisting entirely of unsupported costs—costs not supported with adequate documentation or that do not have required prior approval. Davis Farr did not identify any ineligible costs—costs prohibited by the agreement and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Labor	\$0	\$51,934	\$51,934
Overhead	\$0	\$8,947	\$8,947
Travel	\$0	\$693	\$693
Total Costs	\$0	\$61,574	\$61,574

Davis Farr identified two prior audit reports that were relevant to the ICIMOD's agreement. These reports did not contain any findings that could have a material effect on the SPFS or other financial data significant to the audit objectives.

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

WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$61,574 in questioned costs identified in the report.**
- 2. Advise the ICIMOD to address the report's four internal control findings.**
- 3. Advise the ICIMOD to address the report's four noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 22, 2023

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

We contracted with Davis Farr LLP (Davis Farr) to audit the costs incurred by the International Centre for Integrated Mountain Development (ICIMOD) under a cooperative agreement with the U.S. Agency for International Development (USAID) to support the SERVIR program in Hindu Kush-Himalaya.¹ The purpose of the agreement was to grow the network of government agencies, universities, and institutions in the Hindu Kush-Himalaya region, of which Afghanistan is a part, that use geospatial information and tools to address environmental challenges. Davis Farr reviewed \$3,100,024 costs charged to the agreement from October 1, 2015, through June 30, 2021. Our contract with Davis Farr required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$61,574 in questioned costs identified in the report.**
- 2. Advise the ICIMOD to address the report's four internal control findings.**
- 3. Advise the ICIMOD to address the report's four noncompliance findings.**

Davis Farr discusses the results of the audit in detail in the attached report. We reviewed Davis Farr's report and related documentation. We also inquired about Davis Farr's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the ICIMOD's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Davis Farr is responsible for the attached auditor's report dated April 24, 2023, and the conclusions expressed therein. However, our review disclosed no instances where Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-246)

¹ The agreement number is AID-EGEE-IO-15-00003.

INTERNATIONAL CENTRE
FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

Table of Contents

	<u>Page</u>
Transmittal Letter	i
Background	1
Work Performed	1
Objectives, Scope, and Methodology	1
Summary of Results	4
Review of Prior Findings and Recommendations	5
Summary of ICIMOD’s Responses to Findings	6
References to Appendices	6
Independent Auditor’s Report on Special Purpose Financial Statement	7
Special Purpose Financial Statement	9
Notes to Special Purpose Financial Statement	10
Notes to Questioned Costs Presented on Special Purpose Financial Statement	13
Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	14
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	16
Detailed Audit Findings	18
Status of Prior Findings	27
Appendices:	
Appendix A: Views of Responsible Officials	28
Appendix B: Auditor’s Rebuttal to Chemonics Response to Findings	30

May 8, 2023

Enclosed is the final report on the audit of the Special Purpose Financial Statement by International Centre for Integrated Mountain Development (ICIMOD) under United States Agency for International Development (USAID) Cooperative Agreement No. AID-EGEE-IO-15-00003 to support the SERVIR Program in Hindu Kush-Himalaya. The audit covers the period October 1, 2015 through June 30, 2021.

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

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

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA
Partner

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

Background

On September 29, 2015, the United States Agency for International Development (USAID) awarded Cooperative Agreement No. AID-EGEE-IO-15-00003 (agreement) to the International Centre for Integrated Mountain Development (ICIMOD) to support the SERVIR program in Hindu Kush-Himalaya, and serve eight regional member countries of the Hindu Kush-Himalayas including Afghanistan, Bangladesh, Bhutan, China, India, Myanmar, Nepal, and Pakistan. The SERVIR program was a joint initiative of USAID and the National Aeronautics and Space Administration (NASA) to help developing countries improve environmental management and resilience to climate change by strengthening the capacity of governments and other key stakeholders to integrate earth observation information and geospatial technologies into development decision-making. The purpose of the agreement was to grow the network of government agencies, universities, and institutions in the Hindu Kush-Himalaya region that utilize geospatial information and tools to improve decision-making related to sustainable mountain development.

The initial awarded amount was \$7,000,000, of which \$3,600,000 was obligated. This awarded amount was for all eight countries included in the Hindu Kush-Himalaya region. The initial period of performance was from October 1, 2015 through September 30, 2020. After five modifications, the obligated amount increased to \$6,320,000 and period of performance was extended from September 30, 2020, through June 30, 2021. The award did not specify the amount allocated to each country within the Hindu Kush-Himalaya region. Of the total obligated amount, ICIMOD internally allocated \$3,100,000 to Afghanistan.

ICIMOD is an intergovernmental organization working on behalf of the people of the Hindu Kush Himalaya region. ICIMOD works to improve the lives and livelihoods of men, women, and children, and protect mountain environments and cultures through strengthening regional cooperation for conservation and sustainable mountain development. ICIMOD is based in Kathmandu, Nepal, and works in the eight regional member countries of the Hindu Kush-Himalayas.

Work Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for **Afghanistan Reconstruction (SIGAR) to conduct a financial audit of ICIMOD's Special Purpose Financial Statement (SPFS) for costs incurred under the agreement for the period October 1, 2015, through June 30, 2021.**

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion as to whether ICIMOD's SPFS for the agreement presents fairly, in all material respects, revenues received, costs

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement For Cooperative Agreement No. AID-EGEE-IO-15-00003 SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the agreement and generally accepted accounting principles or other comprehensive basis of accounting.

- *Internal Controls* – Evaluate and obtain a sufficient understanding of ICIMOD’s internal control related to the agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether ICIMOD complied, in all material respects, with the agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the 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 ICIMOD has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included \$3,100,024 in actual costs incurred for the period October 1, 2015, through June 30, 2021. The period of performance of the agreement is complete. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the rates identified in the Federal Financial Report approved by USAID.

Methodology

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

Entrance Conference

An entrance conference was held via Zoom on September 14, 2022. Participants included representatives of Davis Farr, ICIMOD, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of ICIMOD;
- Reviewed the agreement and all modifications to date;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports and, based upon the risk assessment and materiality included as part of the approved

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement For Cooperative Agreement No. AID-EGEE-IO-15-00003 SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high, moderate or low risk for inclusion in our test of transactions. All samples were selected on a judgmental basis. Our sampling methodology was as follows:

- o For accounts that appear to contain unallowable and restricted items according to the terms of the agreement, we sampled 100% of the transactions.
- o For high risk cost categories, we sampled transactions greater than \$15,500, and additional transactions below \$15,500 to ensure that at least 50% of the total amount expended for each cost category was sampled.
- o For moderate risk categories, we sampled transactions greater than \$31,000, and additional transactions below \$31,000 to ensure at least 20% of the total amount expended for each cost category was sampled.
- o For low risk categories, we sampled transactions to ensure at least 10% of the costs for each low risk cost category was sampled. No sample was selected for indirect costs as we tested the proper application of indirect cost rates. This included reviewing the Federal Financial Report to ensure that ICIMOD's indirect costs did not exceed the approved rates.

Internal Control Related to the SPFS

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

Compliance with Agreement Requirements and Applicable Laws and Regulations

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

Corrective Action on Prior Findings and Recommendations

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

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement For Cooperative Agreement No. AID-EGEE-IO-15-00003 SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

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

Exit Conference

An exit conference was held on February 16, 2023 via Zoom. Participants included representatives from Davis Farr, ICIMOD, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by ICIMOD under the agreement with USAID identified the following results.

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We identified \$61,574 in total questioned costs which entirely consist of unsupported costs. A summary of findings and questioned costs is described in the next section.

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Issue	Questioned Costs	Cumulative Questioned Costs
2022-01	Internal control – material weakness Noncompliance	Unsupported direct labor costs	\$60,763	\$60,763
2022-02	Internal control – significant deficiency Noncompliance	Unsupported exchange rate calculations	\$811	\$61,574

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

Finding Number	Nature of Finding	Issue	Questioned Costs	Cumulative Questioned Costs
2022-03	Internal control – significant deficiency Noncompliance	Lack of evidence for exclusion and/or anti-terrorist check	\$0	\$61,574
2022-04	Internal control – significant deficiency Noncompliance	Late submission of financial and program reports	\$0	\$61,574

Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered ICIMOD’s **internal control over financial reporting and performed tests** of those controls. The results of our tests disclosed four internal control weaknesses required to be reported under *Government Auditing Standards*. One weakness is considered to be material and the other three weaknesses are considered to be significant deficiencies. See **Independent Auditor’s Report on Internal Control** on page 14.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed four instances of noncompliance related **to this audit**. See **Independent Auditor’s Report on Compliance** on page 16.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

Review of Prior Findings and Recommendations

We requested from ICIMOD, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to ICIMOD’s activities under the agreement. We obtained and reviewed two prior reports, which consisted of annual programmatic reports prepared by ICIMOD, and concluded that the reports did not have any findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives.

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

Summary of ICIMOD's Responses

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

- Finding 2022-01 – ICIMOD disagreed with this finding indicating that there were other components to direct labor costs in the form of other staff benefits costs that are included as part of the direct labor costs that were not considered during our audit.
- Finding 2022-02 – ICIMOD disagreed with this finding indicating that its exchange rates are automated and fixed in its accounting system and no variances exist.
- Finding 2022-03 – ICIMOD agreed with this finding that no documentation was provided to support whether it performed an exclusion and/or anti-terrorist check on any of its vendors.
- Finding 2022-04 – ICIMOD agreed with this finding on the late submission of financial and program reports.

References to Appendices

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

INDEPENDENT AUDITOR'S REPORT
ON SPECIAL PURPOSE FINANCIAL STATEMENT

International Centre for Integrated Mountain Development
PO Box 3226
Kathmandu, Nepal

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of the International Centre for Integrated Mountain Development (ICIMOD) under Cooperative Agreement No. AID-EGEE-IO-15-00003 (agreement) with the United States Agency for International Development (USAID) to support the SERVIR Program in Hindu Kush-Himalaya for the period October 1, 2015, through June 30, 2021, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 Special Purpose Financial Statement is free from material misstatement.

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 Special Purpose Financial Statement, whether due to fraud or error.** In making those risk assessments, the auditor considers internal control **relevant to the entity's preparation and fair presentation of the 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 **entity's internal control.** Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

International Centre for Integrated Mountain Development
GPO Box 3226
Kathmandu, Nepal

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

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 Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by ICIMOD under the agreement for the period October 1, 2015, through June 30, 2021 in accordance with the basis of accounting described in Note 2.

Basis of Accounting

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of accounting. As described in Note 2, the Special Purpose Financial Statement is prepared by ICIMOD 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.

Restriction on Use

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 24, 2023 on our consideration of ICIMOD'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 ICIMOD's internal control over financial reporting and compliance.

Dawn Funn LLP

Irvine, California
April 24, 2023

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

For the Period October 1, 2015 through June 30, 2021

	Budget	Costs Incurred	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
AID-EGEE-IO-15-00003	\$ 3,100,000	\$ 3,100,000	\$ -	\$ -	\$ -	(3)
Total revenues	<u>3,100,000</u>	<u>3,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Direct labor	\$ -	1,738,359	-	51,934	51,934	(A)
IT support and fixed assets	-	93,961	-	-	-	
Materials	-	15,349	-	-	-	
Other direct costs	-	503,186	-	-	-	
Overhead	-	417,814	-	8,947	8,947	(4),(C)
Subcontract	-	52,552	-	-	-	
Travel	-	278,802	-	693	693	(B)
Total costs incurred	<u>3,100,000</u>	<u>3,100,023</u>	<u>-</u>	<u>61,574</u>	<u>61,574</u>	(5),(D)
Outstanding fund balance	<u>\$ -</u>	<u>\$ (23)</u>	<u>\$ -</u>	<u>\$ (61,574)</u>	<u>\$ (61,574)</u>	(6)

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

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement For Cooperative Agreement No. AID-EGEE-IO-15-00003 SERVIR Program in Hindu Kush-Himalaya

Notes to the Special Purpose Financial Statement¹

For the period October 1, 2015 through June 30, 2021

(1) Background

On September 29, 2015, the United States Agency for International Development (USAID) awarded Cooperative Agreement No. AID-EGEE-IO-15-00003 (agreement) to the International Centre for Integrated Mountain Development (ICIMOD) to provide support the SERVIR program in Hindu Kush-Himalaya, and serve eight regional member countries of the Hindu Kush-Himalayas including Afghanistan, Bangladesh, Bhutan, China, India, Myanmar, Nepal, and Pakistan. The SERVIR program is a joint initiative of USAID and the National Aeronautics and Space Administration (NASA) to help developing countries improve environmental management and resilience to climate change by strengthening the capacity of governments and other key stakeholders to integrate earth observation information and geospatial technologies into development decision-making. The purpose of the agreement was to grow the network of government agencies, universities, and institutions in the Hindu Kush-Himalaya region that utilize geospatial information and tools to improve decision-making related to sustainable mountain development.

The initial awarded amount was \$7,000,000, of which \$3,600,000 was obligated. This awarded amount was for all eight countries included in the Hindu Kush-Himalaya region. The initial period of performance was from October 1, 2015 through September 30, 2020. After five modifications, the obligated amount increased to \$6,320,000 and period of performance was extended from September 30, 2020, through June 30, 2021. The award did not specify the amount allocated to each country within the Hindu Kush-Himalaya region. Of the total obligated amount, ICIMOD internally allocated \$3,100,000 to Afghanistan.

ICIMOD is an intergovernmental organization working on behalf of the people of the Hindu Kush Himalaya region. ICIMOD works to improve the lives and livelihoods of men, women, and children, and protect mountain environments and cultures through strengthening regional cooperation for conservation and sustainable mountain development. ICIMOD is based in Kathmandu, Nepal, and works in the eight regional member countries of the Hindu Kush-Himalayas.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes revenue received and costs incurred under the agreement for the period October 1, 2015, through June 30, 2021. Because the SPFS presents only a selected portion of the operations of ICIMOD, it is not intended to and does not present the financial position, changes in financial position, or cash flows of ICIMOD. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned agreement.

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

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

Notes to the Special Purpose Financial Statement

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Basis of Accounting

Revenues and expenses on the SPFS are reported on the cash basis of accounting. Revenues are recognized when received. Expenses are recognized when paid and follow the Cooperative Agreement terms and conditions.

Currency

All amounts presented are shown in U.S. Dollars. Income and expense (other than in U.S. Dollars) are translated at the official exchange rates prevailing on the first day of the transaction month.

(3) Revenue

ICIMOD reported revenue of \$3,100,000 for the period October 1, 2015, through June 30, 2021.

(4) Overhead

ICIMOD does not have an approved indirect cost rate and no rate was specified in the agreement. ICIMOD communicated its overhead rate to USAID in its Federal Financial Report (Standard Form 425) as follows:

<u>Effective Period</u>	<u>Overhead Rate</u>
Inception through 12/31/17	17.000%
1/1/18 until amended	14.943%

(5) Budget

The agreement was awarded by USAID on a total basis for the program as a whole, with a budget of \$7,000,000. The agreement breaks down the budget into direct costs and indirect costs as follows:

Direct costs	\$4,998,422
Indirect costs	<u>2,001,578</u>
Total budget	<u>\$7,000,000</u>

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

For the period October 1, 2015 through June 30, 2021

Notes to the Special Purpose Financial Statement

(Continued)

(5) Budget (Continued)

The agreement does not specify the amount allocated to each country within the Hindu Kush-Himalaya region. Of the total obligated amount, ICIMOD has internally allocated \$3,100,000 to Afghanistan. However, the internal allocation is for planning purposes only. The cost categories on the SPFS represent internal cost categories of ICIMOD.

(6) Outstanding Fund Balance

As of June 30, 2021, there was no outstanding fund balance under the agreement as the SPFS is prepared on the cash basis of accounting described in Note 2. The SPFS identifies excess costs of \$24, but those excess costs were not being billed to USAID.

(7) Subsequent Events

ICIMOD has evaluated subsequent events through April 24, 2023, which is the date the SPFS was available to be issued. There were no events subsequent to this date that would impact the SPFS.

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement For Cooperative Agreement No. AID-EGEE-IO-15-00003 SERVIR Program in Hindu Kush-Himalaya

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

For the period October 1, 2015 through June 30, 2021

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

(A) Direct Labor

ICIMOD reported direct labor costs of \$1,738,359 for the period October 1, 2015, through June 30, 2021. During our audit of these costs, we identified \$51,934 in questioned costs consisting of insufficiently supported transactions. See Finding No. 2022-01.

(B) Travel

ICIMOD reported travel costs of \$278,802 for the period October 1, 2015, through June 30, 2021. During our audit of these costs, we identified \$693 in questioned costs consisting of insufficiently supported transactions. See Finding No. 2022-02.

(C) Overhead

ICIMOD reported overhead of \$417,814 for the period October 1, 2015, through June 30, 2021. The overhead rates described in Note 4 of the Notes to Special Purpose Financial Statement were applied to the associated questioned costs identified in Notes A and B, which resulted in questioned (unsupported) overhead costs of \$8,947.

(D) Outstanding Fund Balance

ICIMOD reported \$(24) of outstanding fund balance for the period October 1, 2015, through June 30, 2021, which represents costs in excess of its internally prepared budget. These excess costs were not billed to USAID. The total outstanding fund balance as of June 30, 2021 in the amount of \$(61,574) represents the total questioned unsupported costs of \$61,574 of the reported outstanding fund balance.

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

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

INDEPENDENT AUDITOR'S REPORT

International Centre for Integrated Mountain Development
GPO Box 3226
Kathmandu, Nepal

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

We have audited, 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 (*Government Auditing Standards*), the Special Purpose Financial Statement of International Centre for Integrated Mountain Development (ICIMOD) under Cooperative Agreement No. AID-EGEE-IO-15-00003 (agreement) with the United States Agency for International Development (USAID) to support the SERVIR Program in Hindu Kush-Himalaya for the period October 1, 2015, through June 30, 2021, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated April 24, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered ICIMOD's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of ICIMOD's internal control. Accordingly, we do not express an opinion on the effectiveness of ICIMOD'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

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GPO Box 3226
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Office of the Special Inspector General for Afghanistan Reconstruction
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that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we identified one deficiency in internal control, described in the accompanying Detailed Audit Findings as Finding Number 2022-01 that we consider to be a material weakness. In addition, we identified three deficiencies in internal control, described in the accompanying Detailed Audit Findings as Finding Numbers 2022-02, 2022-03 and 2022-04 that we consider to be significant deficiencies.

ICIMOD's Response to Findings

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

Purpose of this Report

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

Restriction on Use

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

Dawn Furr LLP

Irvine, California
April 24, 2023

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

INDEPENDENT AUDITOR'S REPORT

International Centre for Integrated Mountain Development
GPO Box 3226
Kathmandu, Nepal

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

We have audited, 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 (*Government Auditing Standards*), the Special Purpose Financial Statement of International Centre for Integrated Mountain Development (ICIMOD) under Cooperative Agreement No. AID-EGEE-IO-15-00003 (agreement) with the United States Agency for International Development (USAID) to support the SERVIR Program in Hindu Kush-Himalaya for the period October 1, 2015, through June 30, 2021, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated April 24, 2023.

Report on Compliance and Other Matters

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

ICIMOD's Response to Findings

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

International Centre for Integrated Mountain Development
GPO Box 3226
Kathmandu, Nepal

Office of the Special Inspector General for Afghanistan Reconstruction
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applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Restriction on Use

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

Dawn Fann LLP

Irvine, California
April 24, 2023

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

For the period October 1, 2015 through June 30, 2021

Finding 2022-01: Unsupported Direct Labor Costs

Nature of Finding:

Internal control – material weakness
Noncompliance

Condition:

We tested 300 out of 1,647 direct labor transactions and noted that no documentation such as agreed upon hours, detailed contracts and evidence of payment were provided to support 70 transactions in the amount of \$51,934.

Cause:

ICIMOD did not retain adequate documentation to support its direct labor costs due to a lack of training related to its policies and procedures over record retention.

Criteria:

Cooperative Agreement No. AID-EGEE-IO-15-00003, Annex C, *Standard Provisions*, Section I, *Mandatory Standard Provisions for Cost-Type Awards to Public International Organizations (PIOS)*, states, in part:

"1. Allowable Costs

a. The recipient must use funds provided under the award for costs incurred in carrying out the purposes of the award which are reasonable, allocable, and allowable.

(1) **"Reasonable"** means the costs do not exceed those that would ordinarily be incurred by a prudent person in the conduct of normal business.

(2) **"Allocable"** means the costs are necessary to the award.

(3) **"Allowable"** means the costs are reasonable and allocable, and conform to any limitations set forth in the award...

6. Audit and Records (Standard)

The recipient is required to maintain books, records, documents, and other evidence, **in accordance with the recipient's usual accounting procedures to sufficiently substantiate charges to the award..."**

The costs are allowable using the above criteria. However, ICIMOD did not provide documentation to substantiate if the costs incurred were reasonable, allocable or allowable in accordance with the

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

(Continued)

terms of the Agreement. Therefore, we could not make a determination on the allowability of the incurred costs and have questioned the costs as unsupported.

ICIMOD Finance and Administrative Policies. Section 5.1, *Introduction*, states, in part:

"...d) Accounting Records include all of the documentation and books involved in the preparation of financial statement or records relevant to audit and financial reviews. It also includes documentation to prove ownership of asset, creation of liability and evidences of monetary and non-monetary transaction."

Effect:

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

Questioned Costs:

Total questioned costs resulting from the unsupported direct labor transactions charged to the agreement was \$60,763, including associated indirect costs of \$8,829 as follows:

	Total Questioned Costs
Questioned costs	\$51,934
Associated questioned indirect costs	<u>8,829</u>
Totals	<u>\$60,763</u>

Recommendation:

- (1) We recommend that ICIMOD either provide adequate documentation to support the costs incurred or return \$60,763 to the U.S. Government.
- (2) We recommend that ICIMOD provide training to its employees to ensure employees retain documentation to support costs as required by its Finance and Administrative Policies and the Code of Federal Regulations.

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

(Continued)

Finding 2022-02: Unsupported Exchange Rate Calculations

Nature of Finding:

Internal control – material weakness
Noncompliance

Condition:

We tested 67 out of 357 travel transactions and noted that no documentation was provided to support the exchange rate calculation for 12 transactions in the amount of \$693.

Cause:

ICIMOD did not consistently document its exchange rate calculation when converting transactions paid in the Nepalese Rupee to the U.S. Dollar due to a lack of training related to policies and procedures over foreign currency translations and record retention.

Criteria:

Cooperative Agreement No. AID-EGEE-IO-15-00003, Annex C, *Standard Provisions*, Section I, *Mandatory Standard Provisions for Cost-Type Awards to Public International Organizations (PIOS)*, states, in part:

"1. Allowable Costs

a. The recipient must use funds provided under the award for costs incurred in carrying out the purposes of the award which are reasonable, allocable, and allowable.

(1) **"Reasonable" means the costs do not** exceed those that would ordinarily be incurred by a prudent person in the conduct of normal business.

(2) **"Allocable" means the costs are necessary to the award.**

(3) **"Allowable" means the costs are reasonable and allocable, and conform to any limitations set forth in the award...**

6. Audit and Records (Standard)

The recipient is required to maintain books, records, documents, and other evidence, **in accordance with the recipient's usual accounting procedures to sufficiently substantiate charges to the award..."**

The costs are allowable using the above criteria. However, ICIMOD did not provide documentation to substantiate if the costs incurred were reasonable, allocable or allowable in accordance with the

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

(Continued)

terms of the Agreement. Therefore, we could not make a determination on the allowability of the incurred costs and have questioned the costs as unsupported.

ICIMOD Finance and Administrative Policies. Section 8.6.3, *Foreign Currency Translations*, states:

"Monetary assets and liabilities shall be translated from functional currencies (except where functional currency is US Dollars) to the reporting currency at the year-end official exchange rates. Income and expenditure (other than in US Dollars) shall be translated at official exchange rates prevailing on the first day of the transaction month. Foreign exchange gains or losses shall be accounted in the Operating Statement except for cases of abnormal fluctuation in exchange rates where transfers to/from Exchange Equalisation Reserve can be done subject to the approval of the Board."

ICIMOD Finance and Administrative Policies. Section 5.1, *Introduction*, states, in part:

"...d) **Accounting Records include all of the documentation and books involved in the preparation of financial statement or records relevant to audit and financial reviews. It also includes documentation to prove ownership of asset, creation of liability and evidences of monetary and non-monetary transaction.**"

Effect:

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

Questioned Costs:

Total questioned costs resulting from the unsupported direct labor transactions charged to the agreement was \$811, including associated indirect costs of \$118 as follows:

	Total Questioned <u>Costs</u>
Questioned costs	\$693
Associated questioned indirect costs	<u>118</u>
Totals	<u>\$811</u>

Recommendation:

(1) We recommend that ICIMOD either provide adequate documentation to support the costs incurred or return \$811 to the U.S. Government.

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

(Continued)

- (2) We recommend that ICIMOD provide training to its employees to ensure employees document and retain foreign currency translation calculations to support costs as required by its Finance and Administrative Policies and the Code of Federal Regulations.

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

(Continued)

Finding 2022-03: Lack of Evidence for Exclusion and/or Anti-Terrorist Check

Nature of Finding:

Internal control – significant deficiency
Noncompliance

Condition:

During our testing of 51 out of 512 transactions for materials, other direct costs and fixed assets, which consisted of testing 32 different vendors out of a total of 49 vendors, no documentation was provided to support whether ICIMOD performed an exclusion and/or anti-terrorist check on any of its vendors.

Cause:

ICIMOD conducted background checks only on subcontractors with which they transacted business. ICIMOD did not have procedures in place to conduct anti-terrorist checks on vendors from which goods and services were procured.

Criteria:

Cooperative Agreement No. AID-EGEE-IO-15-00003, Annex C, *Standard Provisions*, Section 14, *Terrorist Financing Clause*, states:

“U.S. Executive Orders and U.S. law prohibit transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the responsibility of the recipient to ensure compliance with these Executive Orders and laws. This provision must be included in all contracts or sub agreements issued under the award.”

Cooperative Agreement No. AID-EGEE-IO-15-00003, Annex C, *Standard Provisions*, Section 1, *Mandatory Standard Provisions for Cost-Type Awards to Public International Organizations (PIOS)*, states, in part:

“1. Allowable Costs...

(3) “Allowable” means the costs are reasonable and allocable, and conform to any limitations set forth in the award...”

The costs are allowable using the above criteria. However, ICIMOD did not provide documentation to substantiate if the costs incurred were allowable in accordance with the terms of the Agreement. Therefore, we could not make a determination on the allowability of the incurred costs and have questioned the costs as unsupported.

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

(Continued)

ICIMOD Finance and Administrative Policies. Section 5.1, *Introduction*, states, in part:

"...d) **Accounting Records include** all of the documentation and books involved in the preparation of financial statement or records relevant to audit and financial reviews. It also includes documentation to prove ownership of asset, creation of liability and evidences of monetary and non-monetary transaction."

Effect:

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

Questioned Costs:

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

Recommendation:

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

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

(Continued)

Finding 2022-04: Late Submission of Financial and Program Reports

Nature of Finding:
Internal control – significant deficiency
Noncompliance

Condition:

ICIMOD is required to submit an annual program report to USAID within one month following the end of the reporting period. All reports are due by October 31 for the year ended the previous September 30. We tested all five annual reports required to be submitted and noted that all five reports were submitted late as follows:

<u>Reporting Period</u>	<u>Due Date</u>	<u>Date Submitted</u>	<u>Days Late</u>
10/1/15 – 9/30/16	10/31/16	12/15/16	35
10/1/16 – 9/30/17	10/31/17	11/7/17	7
10/1/17 – 9/30/18	10/31/18	12/17/18	47
10/1/18 – 9/30/19	10/31/19	11/29/19	29
10/1/19 – 9/30/20	10/31/20	12/1/20	31

Cause:

ICIMOD did not have a control in place to ensure the annual reports were submitted timely in accordance with the terms of the agreement.

Criteria:

Cooperative Agreement No. AID-EGEE-IO-15-00003, Section 9.3, *Mid-Year and Annual Reporting*, states, in part:

“Based on the PMP, and as part of USAID’s Performance Review and Annual Report process, the Recipient will submit Mid-year and Annual Progress Reports, describing major program results towards achieving expected results, success stories, any problems encountered, and plans for the following quarter and year...Final drafts of the Mid-year and Annual reports will be due by April 30 and October 31 of each implementation year, respectively...”

Effect:

Failure to monitor reporting deadlines and prepare reports in a timely manner resulted in noncompliance with the agreement. USAID may also have not been adequately informed of ICIMOD’s financial and program performance without the submission of the reports on a timely basis.

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Detailed Audit Findings

(Continued)

Questioned Costs:

There are no questioned costs associated with this finding.

Recommendation:

- (1) We recommend that ICIMOD establish monitoring procedures to ensure there are timely submissions of required reports under federally funded programs.
- (2) We recommend that ICIMOD provide training regarding the monitoring process for timely submission of reports.

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Status of Prior Audit Findings

For the period October 1, 2015 through June 30, 2021

We requested from ICIMOD, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to ICIMOD's activities under the agreement. We obtained and reviewed two prior reports, which consisted of annual programmatic reports prepared by ICIMOD, and concluded that the reports did not have any findings that could have a potential material effect on the SPFS or other financial data significant to the audit objectives.

Since the booking of staff cost is done in full compliance with ICIMOD's finance policy and HROD policy, we request USAID to consider this as part of the eligible expenditure.

Response to Finding 2022-02: Unsupported Exchange Rate Calculations

The standard provision for this contract agreement requires that the financial statements for this project prepared from the accounting records, comply with the financial policies and procedures of ICIMOD. In ICIMOD's accounting system, income and expenditure (other than in US Dollars) are translated at official exchange rates prevailing on the first day of the transaction month. These rates are automated and fixed in the ERP system (Microsoft Dynamics Nav) for all such transactions. The exchange rates used by the auditors is different to the official rates of ICIMOD, hence the difference. In ICIMOD's books there is no exchange difference in expenditure reporting. We request USAID to consider this as part of the eligible expenditure since this complies with the finance policy and procedures of ICIMOD.

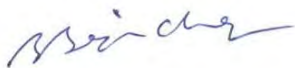
Response to finding 2022-03: Lack of Evidence for Exclusion and/or Anti-Terrorist Check

We acknowledge the recommendation of the auditors.

Response to finding 2022-04: Late Submission of Financial and Program Reports

The Chief of Party of the project in ICIMOD and the Agreement Officer Representative (AOR) have bi-weekly meetings where the activities and progress are discussed and updated to the AOR in each meeting. The reports submitted to the AOR are also discussed in the update meetings. This is the reason for the difference in the dates of the submission of reports and the due reporting deadlines. However, we acknowledge the recommendation of the auditors and will further strengthen the internal control in this area.

Best regards,



Birendra Bajracharya

Chief of Party

INTERNATIONAL CENTRE FOR INTEGRATED MOUNTAIN DEVELOPMENT

Audit of the Special Purpose Financial Statement
For Cooperative Agreement No. AID-EGEE-IO-15-00003
SERVIR Program in Hindu Kush-Himalaya

Auditor's Rebuttal to ICIMOD's Response to Findings

For the period October 1, 2015 through June 30, 2021

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

Finding 2022-01: Unsupported Direct Labor Costs

ICIMOD disagreed with this finding indicating that there were other components to direct labor costs in the form of other staff benefits costs that are included as part of the direct labor costs that were not considered during our audit. During the course of fieldwork, we were able to recalculate direct labor costs for 230 separate transactions without exception. Therefore, it is clear that our recalculation of direct labor costs is considering all components of direct labor. For the 70 transactions included in the finding for which we calculated variances to the direct labor costs as included on the SPFS, ICIMOD only provided testimonial evidence as to why a variance may exist. No actual documentation was provided from personnel files, timesheets or other records to support the variance amount. In the absence of adequate supporting documentation, this finding remains unchanged.

Finding 2022-02: Unsupported Exchange Rate Calculations

ICIMOD disagreed with this finding indicating that its exchange rates are automated and fixed in its accounting system and no variances exist. While we agree that ICIMOD does have exchange rates in its system that convert transactions paid in the Nepalese Rupee to the U.S. Dollar, our independent testing of the exchange rate confirmed that 55 travel transactions were correctly calculated. That same independent testing process identified variances for 12 travel transactions for which ICIMOD did not provide support for its calculation of the currency conversion. In the absence of support for how ICIMOD converted the currency for these 12 transactions, this finding remains unchanged.

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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To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
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- Phone DSN International: 312-664-0378
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SIGAR's Mission

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202