SIGAR

Special Inspector General for Afghanistan Reconstruction

SIGAR 14-23 Financial Audit

USAID's Food Insecurity Response for Urban Populations Program: Audit of Costs Incurred by World Vision, Inc.

J A N U A R Y

2014

SIGAR 14-23-FA/ FIRUP Program

SIGAR | Office of the Special Inspector General for Afghanistan Reconstruction

January 22, 2014

Dr. Rajiv Shah
Administrator, U.S. Agency for International Development

Mr. William Hammink
Afghanistan Mission Director, U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by World Vision, Inc. (World Vision) under a U.S. Agency for International Development (USAID) cooperative agreement to provide support for the Food Insecurity Response for Urban Populations (FIRUP) program.[1] The audit, performed by Crowe Horwath LLP (Crowe Horwath), covered the period March 11, 2009, through January 15, 2011, and total expenditures of $11,034,373.

USAID's cooperative agreement with World Vision provided support for the FIRUP program. The overall goal of the FIRUP program was to promote temporary employment to rapidly increase the purchasing power of Afghan citizens, so that they would be able to satisfy their urgent food needs. The cooperative agreement required World Vision to provide short-term cash-for-work opportunities, assist in the development of the agriculture industry, and expand and improve local infrastructure in the western Afghanistan provinces of Herat, Ghor, and Badghis.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of World Vision's Fund Accountability Statement;[2]
- determine and report on whether World Vision has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in World Vision's internal control over financial reporting; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

In contracting with an independent audit firm and drawing from the results of their audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed Crowe Horwath's audit results and their supporting audit documentation and found them to be in accordance with generally accepted government auditing standards.

Crowe Horwath issued a disclaimer of opinion on the Fund Accountability Statement because the audit firm was unable to quantify the impact on the statement of World Vision's practice of classifying some national office operating costs, first as direct costs to the FIRUP program, and then as indirect costs allocated to multiple awards. World Vision reclassified the direct costs as indirect to avoid exceeding budget restrictions imposed by the cooperative agreement. As a result, an unquantified amount of federal award costs may have been shifted to other projects World Vision had at the time (including other federal awards) through indirect cost charges. World Vision's reclassification practice violates OMB Circular A-122, which requires that, to be allowable, costs must be afforded consistent treatment. Additionally, Section II of the Negotiated Indirect Cost

[1] USAID cooperative agreement number 306-A-00-09-00513-00.
[2] The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

Rate Agreement requires that similar types of costs be accorded consistent treatment. The scope of this audit was limited to USAID's cooperative agreement with World Vision, preventing Crowe Horwath from assessing the impact of the cost reclassification on other awards.[3] This matter has been referred to SIGAR's Investigations Directorate.

Crowe Horwath identified two prior audit findings pertinent to the FIRUP program and found that World Vision did not take adequate corrective action to address one of the prior recommendations.[4] Crowe Horwath reported seven internal control deficiencies and nine instances of noncompliance, which prompted the auditors to question $674,049 in costs. These questioned costs included $667,795 in ineligible costs[5] and $6,254 in unsupported costs.[6] See table 1.

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Program Outputs	$6,095		$6,095
Other Direct Costs	$159		$159
Indirect Costs	$667,795	$667,795	
Totals	$674,049	$667,795	$6,254

In addition, the audit found that World Vision had not remitted an estimated $295 in interest revenue earned on advances given by USAID.

Given the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan:

1. **Determine the allowability of and recover, as appropriate, $674,049 in questioned costs identified in the report.**
2. **Recover the estimated $295 in interest revenue earned from advances provided.**
3. **Advise World Vision to address the seven internal control findings identified in the report.**
4. **Advise World Vision to address the nine compliance findings identified in the report.**

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-021)

[3] OMB Circular A-133 reports issued for 2009, 2010, and 2011 indicate that World Vision had more than four other federal awards funded by USAID and other federal organizations in each year. See audit finding 2013-01 for additional details.
[4] See audit finding 2013-08 for additional details.
[5] Ineligible costs are unreasonable; prohibited by the audited contract or applicable laws and regulations; or not award-related. Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for review by USAID to make a final determination regarding allowability.
[6] Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

World Vision, Inc.

Fund Accountability Statement

Food Insecurity Response for Urban Populations Program

For the Period March 11, 2009, through January 15, 2011

(With Independent Auditor's Report Thereon)

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Transmittal Letter

December 27, 2013

To the Board of Directors of World Vision, Inc.
300 I Street NE
Washington, D.C. 20002

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of World Vision, Inc.'s ("World Vision") cooperative agreement with the United States Agency for International Development funding the Food Insecurity Response for Urban Populations ("FIRUP") program.

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

When preparing our report, we considered comments, feedback, and interpretations provided by World Vision and the Office of the Special Inspector General for Afghanistan Reconstruction both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses were also considered and are incorporated into the report as an appendix. Our rebuttal to management's responses has also been included.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of World Vision's FIRUP project.

Sincerely,

John Weber, CPA, Partner
Crowe Horwath LLP

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Summary

Background

World Vision, Inc. ("World Vision") entered into a cooperative agreement with the United States Agency for International Development ("USAID") to provide short-term cash-for-work opportunities, assist in the development of the agriculture industry, and expand and improve local infrastructure under a program entitled the "Food Insecurity Response for Urban Populations" ("FIRUP"). The cooperative agreement – 306-A-00-09-00513-00 – incorporated an initial ceiling price of $4,500,000 and a period of performance of March 11, 2009, through September 7, 2009. Through subsequent modifications to the cooperative agreement, the final completion date was established as January 15, 2011, with an obligation amount of $11,153,577. World Vision reported that $11,034,373 was expended on project activities during the project's period of performance.

Throughout the period in which work was performed in the Western Afghanistan provinces of Herat, Ghor, and Badghis, World Vision collaborated with citizens in Afghanistan, USAID, local and regional subcontractors, and non-profit entities to deliver the requested project scope. As reported in World Vision's final report, the FIRUP project results (unaudited by Crowe) included, but were not limited to:

- 46,318 direct beneficiaries and 231,590 indirect beneficiaries were reached;
- In Ghor province, 222 projects were implemented;
- In Badghis province, 289 projects were implemented;
- In Herat, 348 projects were implemented;
- Short-term employment opportunities were provided, including increased involvement of women;
- Roads into Herat, Badghis, and Ghor provinces were expanded and improved; and
- Various agriculture assets in rural communities were rehabilitated.

Project work concluded in January 2011.

Work Performed

Crowe Horwath LLP ("Crowe") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of World Vision's FIRUP project.

Objectives Defined by SIGAR

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

Audit Objective 1 – Internal Controls

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

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Audit Objective 2 – Compliance

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

Audit Objective 3 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the fund accountability statement.

Audit Objective 4 – Fund Accountability Statement

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

Scope

The scope of the audit included the period March 11, 2009, through January 15, 2011, for the FIRUP project. The audit was limited to those matters and procedures pertinent to the cooperative agreement that could have a direct and material effect on the Fund Accountability Statement ("FAS") and evaluation of the presentation, content, and underlying records of the FAS. The audit included reviewing the financial records that support the FAS to determine if there were material misstatements and if the FAS were presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Eligibility;
- Period of Availability of Federal Funds;
- Procurement;
- Reporting;
- Subrecipient Monitoring; and
- Special Tests and Provisions, including matters pertaining to the vetting of contractors and beneficiaries to determine if they are or were suspected of potentially supporting or funding terrorist activities.

Methodology

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

For purposes of meeting Audit Objective 1 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by World Vision. The system of internal control is intended to provide reasonable

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assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 2 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the cooperative agreement. Crowe identified – through review and evaluation of the cooperative agreement executed by and between World Vision and USAID, the Code of Federal Regulations ("CFR"), and applicable circulars issued by the United States Office of Management and Budget ("OMB") – the criteria against which to test the FAS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, cash drawdowns requests submitted to USAID, procurements, cash disbursements, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess World Vision's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements ("NICRA"), associated restrictions and limitations established within the NICRA, and whether costs were treated consistently as direct or indirect charges.

To obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action as per Audit Objective 3, Crowe inquired of World Vision regarding prior audits and reviews. Three prior audits were completed that included the FIRUP project within their scope. We reviewed the corrective action taken in response to recommendations made in the three prior audits to determine if they were adequate.

With regard to Audit Objective 4 pertaining to the FAS, transactions were selected from the financial records underlying the FAS and the transactions were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the FAS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

Due to the location and nature of the project work and certain vendors and individuals who supported the project still residing in Afghanistan, certain audit procedures were performed on-site in Afghanistan as deemed necessary.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified ten findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) deficiencies that resulted in questioned costs, and/or (4) noncompliance with rules, laws, regulations, or the terms and conditions of the cooperative agreement. Other matters that were identified during the course of the audit, but were not classified as findings, were either reported within a management letter dated December 12, 2013, or were communicated verbally to World Vision.

Crowe also reported on both World Vision's compliance with the applicable laws, rules, regulations, and terms and conditions of the cooperative agreement and the internal controls over compliance. Five material weaknesses in internal control, two significant deficiencies in internal control, and seven instances of material noncompliance were reported. Two other instances of noncompliance were noted and reported as findings due to their resulting in questioned costs pursuant to the reporting requirements prescribed by SIGAR. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of $674,049 in costs was questioned as presented in **TABLE A** contained herein.

Finding 2013-03 includes $295 in estimated interest that is payable to the Government based on World Vision's carrying excess Federal cash for multiple periods during the project's period of performance.

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The amount represents foregone interest that would have been received or earned by the Government and does not have an impact on the costs incurred.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to World Vision's financial performance under the cooperative agreement. World Vision provided copies of three reports from audits conducted in accordance with OMB Circular A-133 along with management's responses. Two findings were reported by the external auditors that were pertinent to the FIRUP project. World Vision implemented corrective action going forward that helped to address the cause of the findings. However, one finding was repeated within Crowe's audit report due to suspension and debarment searches not having been conducted consistently throughout the audit period; see audit finding 2013-08.

Crowe issued a disclaimer of opinion on the FAS. The basis for the disclaimer of opinion is addressed within Crowe's *Independent Auditor's Report on the Fund Accountability Statement*.

This summary is intended to present an overview of the results of procedures completed for the purposes described herein and is not intended to be a representation of the audit's results in their entirety.

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2013-01	Allowable Costs: Cost Allocation and Inconsistent Treatment of Direct Costs	$667,795	$667,795
2013-02	Eligibility: Documentation Supporting Beneficiary Eligibility	$4,949	$672,744
2013-03	Cash Management: Reimbursement versus Advance Basis Payments	$0	$672,744
2013-04	Cash Management: Undocumented Federal Cash Disbursements	$159	$672,903
2013-05	Foreign Currency Conversions	$0	$672,903
2013-06	Reporting: Supporting Documentation for Programmatic Reports	$0	$672,903
2013-07	Reporting: Timely Submission of Federal Reports	$0	$672,903
2013-08	Procedures to Prevent Funding Suspended, Debarred, or Excluded Parties	$1,140	$674,043
2013-09	Allowable Costs: Payment for Beneficiary	$6	$674,049
2013-10	Generation of a Procurement Population	$0	$674,049
Total Questioned Costs			**$674,049**

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Summary of Management Comments

World Vision agreed with all of the findings with the exception of finding 2013-10. World Vision agreed with the questioned costs included within the report as well except for the questioned costs presented in findings 2013-01 and 2013-02. Management indicated that, of the $667,795 transferred into the indirect cost pool, only $6,644 was ultimately charged to the FIRUP project. In addition, World Vision did not agree that procedures were required to be conducted (e.g., searches of Federal systems such as the Excluded Parties List System and Office of Foreign Assets Control) to ensure that Federal funds were not provided to individuals who were excluded from receiving assistance pursuant to Section C.28 of the cooperative agreement. While World Vision generally agreed with the findings, World Vision did not agree with the inclusion of questioned costs amounting to less than $10,000 as World Vision is ordinarily subject to audits conducted in accordance with OMB Circular A-133, which has reporting thresholds that differ from those prescribed by SIGAR.

References to Appendices

The auditor's reports are supplemented by two appendices. **Appendix A** includes the Views of Responsible Officials, which are management's responses to the findings presented within the report. **Appendix B** includes the auditor's rebuttal to management's responses.

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INDEPENDENT AUDITOR'S REPORT ON THE FUND ACCOUNTABILITY STATEMENT

To the Board of Directors of World Vision, Inc.
300 I Street NE
Washington, D.C. 20002

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

Report on the Fund Accountability Statement

We were engaged to audit, 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 Fund Accountability Statement ("the Statement") of World Vision, Inc. ("World Vision") and related notes to the Statement, for the period March 11, 2009, through January 15, 2011, with respect to the Food Insecurity Response for Urban Populations ("FIRUP") project funded by cooperative agreement number 306-A-00-09-00513-00. We have issued our report thereon dated December 12, 2013.

Management's Responsibility for the Fund Accountability Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) in Appendix V of Solicitation ID05130041 ("Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Fund Accountability Statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

We were unable to obtain sufficient appropriate audit evidence to fully quantify the impact of World Vision's misallocation of costs on the fund accountability statement. The terms of the engagement limited the scope of this audit to the FIRUP cooperative agreement listed above; further, the terms also

(Continued)

restricted the audit of indirect costs charged to the award to an assessment of the indirect cost rate agreement and evaluation of the cost allocation methodology for alignment with the Federal cost principles prescribed in Office of Management and Budget Circular A-122. Therefore, we could not form an audit opinion of the fund accountability statement.

Disclaimer of Opinion on the Fund Accountability Statement

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Statement for the period March 11, 2009, through January 15, 2011, as pertaining to the FIRUP project. Accordingly, we do not express an opinion on the Fund Accountability Statement.

Restriction on Use

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated December 12, 2013, on our consideration of World Vision's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Crowe Horwath LLP

Crowe Horwath LLP

December 12, 2013
Washington, D.C.

World Vision, Inc.
Cooperative Agreement No. 306-A-00-09-00513-00
Food Insecurity Response for Urban Populations
FUND ACCOUNTABILITY STATEMENT
March 11, 2009, through January 15, 2011

				Questioned Costs		
	Obligated Amount	**Budget**	**Actual**	**Ineligible**	**Unsupported**	**Notes**
Revenues						
Award No. 306-A-00-09-00513-00	$ 11,153,577	$ 16,500,000	$ 11,034,373			4
Total Revenue	$ 11,153,577	$ 16,500,000	$ 11,034,373			
Costs Incurred						
Salaries & Benefits		$ 1,541,731	$ 2,069,460	$ -	$ -	
Travel & Transportation		521,215	415,518	-	-	
Capital Equipment >$5,000		18,000	-	-	-	
Supplies & Equipment <$5,000		209,580	104,870	-	-	
Program Outputs		9,990,462	6,397,861	-	6,095	B, D, E
Other Direct Costs		766,262	479,214	-	159	C
Indirect Costs		3,452,750	1,567,450	667,795	-	A
Total Costs Incurred	$ 11,153,577	$ 16,500,000	$ 11,034,373	$ 667,795	$ 6,254	6, F
Outstanding Fund Balance		$ -	$ -			

The accompanying notes to the Fund Accountability Statement are an integral part of this Statement.

(Continued)

World Vision, Inc.
Notes to the Fund Accountability Statement
For the Period March 11, 2009, through January 15, 2011

Note 1. Basis of Presentation

The accompanying Fund Accountability Statement (the "Statement") includes costs incurred under cooperative agreement number 306-A-00-09-00513-00 for the Food Insecurity Response for Urban Populations for the period March 11, 2009, to January 15, 2011. Because the Statement presents only a selected portion of the operations of World Vision, Inc. and World Vision, Inc. (collectively "World Vision") it is not intended to and does not present the financial position, changes in net assets, or cash flows of World Vision. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal award. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the accompanying Fund Accountability Statement are reported on the accrual basis of accounting. Such expenditures are recognized following the costs principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.

Note 3. Foreign Currency Conversion Method

Revenue and expenses are translated into U.S. dollars at weighted average rates each month.

Note 4. Revenues

Revenue is recognized in the period the Organization incurs reimbursable program expenditures.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the final, USAID-approved budget appearing in cooperative agreement number 306-A-00-09-00513-00, modification #2 effective March 11, 2009, and signed December 7, 2009.

Note 6. Fund Balance

The fund balance of $0 presented on the Statement represents the difference between revenues earned and costs incurred.

Note 7. Currency

All amounts presented are shown in United States dollars.

Note 8. Categorization of Personnel Charges

The Salaries & Benefits line in the Statement represents the salaries and benefits paid to the World Vision staff working on the cooperative agreement. The Program Outputs line includes the cash for work payments disbursed to the beneficiaries, as well as payments made to teachers who facilitated health trainings, but were not World Vision staff.

(Continued)

Note 9. Program Status

The aforementioned award is complete at the time of this Statement. The final FY11 NICRA adjustment of ($3,195) is the only outstanding financial adjustment that will be reported on the final Federal Financial Report (SF-425) and will adjust the total indirect costs to $1,564,255.

Notes to the Questioned Costs Presented on the Fund Accountability Statement[1]

Note A. Allowable Costs: Cost Allocation and Inconsistent Treatment of Direct Costs

Finding 2013-01 identified $667,795 in questioned costs due to World Vision's treating direct costs and indirect costs inconsistently and transferred direct costs into the indirect cost pool to permit recovery of such costs through the indirect cost rate. Such treatment represents an express violation of the provisions OMB Circular A-122 and the negotiated indirect cost rate agreement ("NICRA").

Note B. Eligibility: Documentation Supporting Beneficiary Eligibility

Finding 2013-02 questions $4,949 due to World Vision's inability to produce documentation supporting the eligibility of select beneficiaries.

Note C. Cash Management: Undocumented Federal Cash Disbursements

Finding 2013-04 questions $159 due to World Vision's inability to produce adequate documentation showing that Federal funds were disbursed for the transaction recorded to the project ledger and due to an overcharge to the project resulting from a foreign currency conversion.

Note D. Procedures to Prevent Funding Suspended, Debarred, or Excluded Parties

Finding 2013-08 questions $1,140 due to certain vendors being identified within the System for Award Management as being suspended, debarred, or otherwise excluded and World Vision's being unable to produce documentation from the project's period of performance indicating that the individuals were not suspended or debarred.

Note E. Allowable Costs: Payment for Beneficiary

Finding 2013-09 questions $6 due to a beneficiary being paid for a day that (s)he did not work.

Note F. Obligated Amount

The obligated amount represents the amount of Federal funds authorized by the U.S. Government for use on the FIRUP project. Incorporation of this element on the fund accountability statement represents a deviation from the required presentation format prescribed by the Office of the Special Inspector General for Afghanistan Reconstruction. The obligated amount is presented on the Statement at the request of the auditee.

[1] Notes to the Questioned Costs Presented on the Fund Accountability Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Statement.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the Board of Directors of World Vision, Inc.
300 I Street NE
Washington, D.C. 20002

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

We were engaged to audit, 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 Fund Accountability Statement ("the Statement") of World Vision, Inc. ("World Vision") and related notes to the Statement, for the period March 11, 2009, through January 15, 2011, with respect to the Food Insecurity Response for Urban Populations ("FIRUP") project funded by cooperative agreement number 306-A-00-09-00513-00. We have issued our report thereon dated December 12, 2013, within which we disclaimed an opinion.

Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period March 11, 2009, through January 15, 2011, we considered World Vision's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of World Vision's internal control. Accordingly, we do not express an opinion on the effectiveness of World Vision's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a

(Continued)

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2013-01, 2013-02, 2013-03, 2013-06, and 2013-07 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies noted in Findings 2013-08 and 2013-10 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

We noted certain matters that we reported to World Vision's management in a separate letter dated December 12, 2013.

World Vision's Response to Findings

World Vision's responses to the findings identified in our audit are attached as Appendix A to this report. We did not audit World Vision's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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

Restriction on Use

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

Crowe Horwath LLP

Crowe Horwath LLP

December 12, 2013
Washington, D.C.

Crowe Horwath LLP
Independent Member Crowe Horwath International

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the Board of Directors of World Vision, Inc.
300 I Street NE
Washington, D.C. 20002

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

We were engaged to audit, 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 Fund Accountability Statement ("the Statement") of World Vision, Inc. ("World Vision") and related notes to the Statement, for the period March 11, 2009, through January 15, 2011, with respect to the Food Insecurity Response for Urban Populations ("FIRUP") project funded by cooperative agreement number 306-A-00-09-00513-00. We have issued our report thereon dated December 12, 2013, within which we disclaimed an opinion.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement are the responsibility of the management of the World Vision, Inc.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of fund accountability statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2013-01, 2013-02, 2013-03, 2013-04, 2013-05, 2013-07, 2013-08, 2013-09, and 2013-10 in the accompanying Schedule of Findings and Questioned Costs.

We noted certain matters that we reported to World Vision's management in a separate letter dated December 12, 2013.

World Vision's Response to Findings

World Vision's responses to the findings identified in our audit are attached as Appendix A to this report. We did not audit World Vision's responses and, accordingly, we express no opinion on them.

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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 internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

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

Crowe Horwath LLP

Crowe Horwath LLP

December 12, 2013
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2013-01: Allowable Costs: Cost Allocation and Inconsistent Treatment of Direct Costs

Material Weakness and Non-Compliance

Criteria: In accordance with the provisions of OMB Circular A-122, to be allowable, costs must be afforded consistent treatment, conform to any limitations or exclusions set forth in the cost principles or in the award as to types or amount of cost items, and be allocable to the award. A cost is considered to be allocable to an award "if it is treated consistently with other costs incurred for the same purpose in like circumstances" and "may not be shifted to other Federal awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award."

Direct costs are defined as those "that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost. Costs identified specifically with awards are direct costs of the awards and are to be assigned directly thereto."

Section II of the Negotiated Indirect Cost Rate Agreement ("NICRA") prescribes certain limitations applicable to application of the NICRA. The limitations include, but are not limited to, similar types of costs being accorded consistent treatment.

The general principles of OMB Circular A-122 further state that "a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received."

Condition: World Vision allocates costs incurred in the national office located in the cooperating country to specific projects using a cost allocation model. Three types of charges flow through the cost allocation model. They are as follows (based on World Vision's "Distinctions Between Cost Allocation Methodology (CAM) & NICRA" desk guide and communications with World Vision):

> 1. Direct Project Costs (DPC): Costs that directly benefit the project they serve and are incurred at the project level;
> 2. Share Direct Project Costs (SDPC): Costs incurred at the regional/provincial office level (i.e. Ghor and Badghis) and are allocated to the projects they serve; and
> 3. Other Operating Costs Allocated (OOCA): Costs incurred by the National Office that directly benefit all projects and are, therefore, pooled and allocated to each project as direct costs.

In addition, World Vision has a fourth cost type that is included within the indirect charges flowing through the indirect cost rate calculation. This cost type is entitled the "Other Operating Costs Unallocated (OOCU)" and includes those costs incurred by the National Office that indirectly benefit all projects and, therefore, are not allocated to specific projects. During the audit, it was noted that World Vision instructs its staff to reclassify direct charges to the indirect cost pool when the full amount of direct charges cannot be allocated to the benefiting project. The specific instruction follows:

> "7) If an amount cannot be fully allocated to the project as OOCA, one of the following two options is suggested: A. Allocate the full amount to the project and then make a reversal entry back to OOCU (SMC) after the allocation; and B. Adjust the amounts that can be allocated manually in the voucher."

Throughout the project, World Vision re-allocated $667,795 in OOCA charges to the indirect cost pool (OOCU) due to budget limitations. This resulted in inconsistent treatment of similar direct and indirect charges, a distribution of direct costs as indirect expenditures, and potential recovery of direct charges through the indirect cost rate. Accordingly, the costs treated inconsistently are unallowable under Federal regulations. In addition, the transfers were the result of certain limitations being encountered such that direct costs could not be fully allocated to the project(s) receiving the benefits. The reclassifications occurred in each year of the project's performance (2009, 2010, and 2011). The

(Continued)

NICRA rate, which included direct costs as per the aforementioned practice, was assessed against certain cost bases to calculate charges to the FIRUP project.

Further, World Vision utilized project expenditures as the allocation basis to determine the percentage of total costs incurred that would be allocated to each project. The National Office's effort on the cash-for-work project may not be accurately estimated using expenditures. The majority of costs incurred for the project as reported on the Fund Accountability Statement were not related to World Vision activity, but rather to work performed by Afghan nationals in the field; approximately 57.98 percent of project costs were direct costs incurred by beneficiaries through cash-for-work activities.

During the audit, World Vision conducted an assessment of actual costs charged to the project on an expenditure-driven basis versus a full time equivalent (FTE) approach. The analysis completed by management (unaudited by Crowe) produced two conclusions: 1) that the project was undercharged using the policy in place by approximately $589,284; and 2) that the use of an FTE-basis would have resulted in significantly less potentially eligible costs. Thus, the use of an expenditure-driven basis was determined to be inequitable and resulted in the FIRUP project not being charged an amount that reflects its relative benefit. Per review of the OMB Circular A-133 reports issued for 2009, 2010, and 2011, World Vision had greater than four other Federal awards funded by USAID and other Federal organizations in each year.

Due to the scope of the audit being limited to the FIRUP project, procedures pertaining to other Federal awards and charges allocated thereto were not conducted. Thus, any actual or potential overcharges to the Federal Government were not calculated. In addition, due to direct costs associated with the FIRUP project being reallocated through the indirect cost pool and charged out as a result of the cost allocation process deficiencies, one cannot determine how much in unallowable charges were assigned to other Federal projects or what amount of direct charges for other Federal and/or non-Federal projects were charged to the FIRUP project.

Questioned costs: $667,795

Effect: The Federal Government may have unintentionally supplemented non-Federal projects and funded other Federal awards through the funds obligated for the FIRUP project due to the misallocation of costs.

Cause: According to World Vision they utilized the cost allocation methodology described above due to its relative simplicity and to reduce the risk associated with employing more complex cost allocation approaches. World Vision also considered the transfer of costs from direct costs to the indirect cost pool to be appropriate due to World Vision's being able to identify which costs were direct charged to the award and which transactions were reversed.

Recommendation: We recommend that World Vision execute the following actions:

1) Conduct a comprehensive assessment of the cost allocation methodology, identify an equitable distribution base, document how the determination of equitable distribution was made, and provide the results of the analysis and supporting documentation to USAID for review or refund the $667,795 in question; 2) identify the impact of shifting direct costs into the indirect cost pool on the NICRA percentage rate, calculate the resulting overcharge to the FIRUP project based on the inclusion of unallowable charges, and remit the overcharge amount to the U.S. Government; 3) revise the CAM instructions to exclude the instruction that staff reclassify direct costs into the indirect cost pool; and 4) provide training regarding cost allocation under the provisions of OMB Circular A-122 to all Finance staff (both in the National Office and elsewhere) who are involved in the Afghanistan projects funded by the U.S. Government.

(Continued)

Finding 2013-02: Eligibility: Documentation Supporting Beneficiary Eligibility

Material Weakness and Non-Compliance

Criteria: Section B.2 of the cooperative agreement and the second modification to the agreement specify that the program will be implemented within Herat, Qala-i-Naw, Chaghcharan, Ghor, and Badghis.

Per Title 22, Part 226.13 of the Code of Federal Regulations, World Vision must comply with the debarment and suspension requirements presented in 22 CFR Part 208. In accordance with the aforementioned regulations, World Vision is restricted from providing Federal funds to debarred, suspended, or otherwise excluded parties.

Pursuant to the provisions of 22 CFR Part 226.53, supporting documents and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report. In addition, in accordance with OMB Circular A-122, costs must be adequately supported in order to be considered allowable for charging to a Federal award.

World Vision's eligibility procedure to determine eligibility includes selecting beneficiaries based on the recommendations of community leaders (Shuras) regarding vulnerable populations.

Section C.28 of the cooperative agreement states as follows, "The Contractor/Recipient is reminded that U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the contractor/recipient to ensure compliance with these Executive Orders and laws."

Condition: World Vision did not provide evidence of the community leaders' recommendations or documentation to support the physical address of sixty beneficiaries. In addition, searches of the System for Award Management indicated that thirty of the beneficiaries may be suspended, debarred, excluded, or otherwise prohibited from receiving Federal funds. World Vision did not have a process in place during the project's period of performance to determine whether beneficiaries were excluded.

Questioned costs: $4,949

Effect: The Government may have funded individuals who were prohibited from receiving financial assistance from the Government directly or indirectly or were otherwise excluded from receiving funding for the USAID-funded project.

Cause: World Vision could not provide documentation supporting the beneficiaries' eligibility and did not have a process in place to ensure that beneficiaries were not excluded from receiving funds.

Recommendation: We recommend that World Vision either conduct an additional search for evidence of beneficiaries' eligibility to be funded by the Federal project or return the $4,949 associated with the sixty beneficiaries. The documentation should be provided to USAID as evidence that the individuals receiving cash for work resided and worked in the areas targeted by the funding agency. We further recommend that World Vision begin conducting searches of Federal resources prior to funding beneficiaries to understand which, if any, beneficiaries are excluded.

(Continued)

Finding 2013-03: Cash Management: Reimbursement versus Advance Basis Payments

Material Weakness and Non-Compliance

Criteria: Part 3 of the 2009 OMB Circular A-133 Compliance Supplement states that, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. In addition, 22 CFR Part 226.2 defines an advance as a payment made by the Government to a recipient upon its request either before outlays are made by the recipient or through the use of predetermined payment schedules.

22 CFR Part 226.22(b)(2) requires that advances be limited to the minimum amounts needed and be timed in accordance with actual, immediate cash requirements. The timing and amount of cash advances must be as close as is administratively feasible to the actual disbursements.

Condition: World Vision utilized a reimbursement basis for determining payment amounts to be requested from USAID and defined reimbursement as payment for costs incurred. Per review of the project financial records and amounts drawn down from USAID, World Vision requested and received cumulative payments that exceeded cumulative actual costs incurred consistently throughout the project.

During a review of amounts drawn down over the course of the project relative to each month's expenditures, excess cash was calculated for eight months. Excess cash was defined, for purposes of the audit, as the cumulative amount of funds drawn down that exceeded the sum of the project's cumulative expenditures as of month-end and the expenditures for the subsequent month. The amount of excess cash ranged from $99 to $1,461,409. Thus, World Vision obtained advances of Federal funds rather than having been reimbursed, as intended. Utilizing the daily interest rates identified by the United States Department of the Treasury for cash management purposes, $295 in imputed interest was calculated.

In addition, World Vision does not have a report available that can show the dates that each transaction was paid. Thus, one cannot determine which, if any, of the costs included in the general ledger reports supporting reimbursement requests were also unpaid thus rendering them ineligible for reimbursement at the time the payment requests were submitted.

Questioned costs: None. Imputed interest on excess cash balances was calculated as $295.

Effect: World Vision overcharged the Government continuously by drawing down funds prior to costs being incurred and paid. Due to the excess drawdowns, the Government lost approximately $295 in interest.

Cause: World Vision based its drawdown amounts on estimates rather than actual costs incurred.

Recommendation: We recommend that World Vision 1) remit $295 in interest payments to the Government; 2) revise its cash management procedures such that costs will be submitted for reimbursement only after having been incurred rather than based on estimates; and 3) conduct an analysis to identify which costs were unpaid at the time payment was received from the Government and provide the analysis to USAID for a determination regarding additional interest that may be payable due to additional funds having been advanced that are otherwise not captured in the imputed interest calculation.

(Continued)

Finding 2013-04: Cash Management: Undocumented Federal Cash Disbursements

Non-Compliance

Criteria: Pursuant to OMB Circular A-122, "to be allowable under an award, costs must meet the following general criteria:

a. Be reasonable for the performance of the award and be allocable thereto under [the principles contained in OMB Circular A-122].
b. Conform to any limitations or exclusions set forth in [the principles contained in OMB Circular A-122] or in the award as to types of amount of cost items.
c. Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the organization.
d. Be accorded consistent treatment.
e. Be determined in accordance with generally accepted accounting principles (GAAP).
f. Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period.
g. Be adequately documented."

Condition: World Vision did not provide documentation showing that payment was made for one transaction totaling $136 charged to the cooperative agreement. In the absence of disbursement support, one cannot determine if the Federal funds were used for programmatic purposes and if the Federal funds received from the Government were transferred to the individuals and entities providing goods and services for the project.

For an additional two items, World Vision charged an amount greater than that which was necessary following the conversion of Afghanis to U.S. dollars. The supporting documentation provided by World Vision did not include the exchange rate utilized to convert the Afghanis to U.S. dollars. Upon review of historical exchange rate data provided by the Afghanistan International Bank, the mid-point rate for each of the disbursement dates was 46.67 and 46.24 Afghanis per U.S. dollar, respectively. Use of this historical information to recalculate the transaction amounts indicated that $23 greater than necessary was charged to the award.

Questioned costs: $159

Effect: Federal funds paid to World Vision to fund FIRUP project activities may have been diverted to other sources rather than paying for $136 in charges. The Government may have been overcharged by $23 as a result of the foreign currency exchange using an exchange rate exceeding what was necessary on the transaction date.

Cause: World Vision was unable to locate the supporting documentation supporting payment and the exchange rates used.

Recommendation: We recommend that, unless World Vision can provide documentation showing that payment was rendered to the vendors, USAID be reimbursed for the $159 in charges to the project

(Continued)

Finding 2013-05: Foreign Exchange Conversions

Non-Compliance

Criteria: Pursuant to Section C. 16 of World Vision's agreement with USAID, the Chief of Party was required to obtain written guidance from the Mission Director regarding the method for converting U.S. dollars to local currency upon arrival in Afghanistan. Section C. 16 states:

> **C.16 CONVERSION OF UNITED STATES DOLLARS TO LOCAL CURRENCY (NOVEMBER 1985):**
> Upon arrival in the Cooperating Country, and from time to time as appropriate, the recipient's chief of party shall consult with the Mission Director who shall provide, in writing, the procedure the recipient and its employees shall follow in the conversion of United States dollars to local currency. This may include, but is not limited to, the conversion of currency through the cognizant United States Disbursing Officer or Mission Controller, as appropriate.

Condition: World Vision utilized an average exchange rate process to conduct conversions of Afghanis ("Afs") to U.S. dollars ("USD") and vice versa. Use of this process results in the actual spot rates existing on the date each conversion occurs not being used. World Vision could not provide documentation indicating the specific conversion methodology that USAID instructed the organization to use when converting USD to Afs. Thus, one cannot determine if the approach used by World Vision is compliant with Mission directives or if the use of an average rate in lieu of daily or spot rates is considered to be inappropriate thus rendering any overcharges ineligible.

Questioned costs: None

Effect: The U.S. Government may have been overcharged as a result of World Vision retaining excess cash balances over a period of time and utilizing an average rate for currency conversions or otherwise holding cash until such a time as the exchange rate is more favorable for financial reporting purposes.

Cause: World Vision's headquarters did not retain documentation of the Chief of Party's meeting or of the Mission's instruction regarding the approved conversion process.

Recommendation: We recommend that World Vision retain documentation of the Chief of Party's meeting with the Mission during which the exchange rate conversion process established by or agreed to by USAID is communicated. The documentation should be provided to those individuals responsible for financial management and accounting for costs incurred under the award.

(Continued)

Finding 2013-06: Reporting: Supporting Documentation for Programmatic Reports

Material Weakness

Criteria: Pursuant to the provisions of 22 CFR Part 226.53, supporting documents and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report.

World Vision is responsible for establishing and maintaining a system of internal control that detects and corrects errors in reporting and issues of noncompliance.

Condition: World Vision was unable to provide documentation supporting the quantities of beneficiaries reported. Section 4 of World Vision's final project report indicated that 46,318 direct beneficiaries and 231,590 indirect beneficiaries were reached through project activities. The same report later included a combined 50,406 beneficiaries for the provinces of Herat, Badghis, and Ghor. To test the accuracy of the report and to audit the eligibility of the reported beneficiaries, the auditor requested a list of the direct beneficiaries for a sample of nine locations, as shown in **Table B**, below. We also noted that the total beneficiaries referenced in the report (46,318) did not agree to the sum of the beneficiaries presented in Section 4 of the final report ("Performance Analysis").

Per discussion with World Vision, there was not an established procedure in place for the review and approval of performance reports prior to submission to USAID, which would have detected and corrected the reporting discrepancies.

TABLE B: Beneficiaries As Reported by World Vision in the Final Project Report

Item	Nature of Work/Accomplishment	Location / Province	Beneficiaries
1	Road Rehabilitation and Graveling	Herat	3,407
2	Construct culverts	Herat	851
3	Extension of potable water network	Herat	3,470
4	Construct /repair schools, community centers, and health facilities	Badghis	138
5	Construct culverts	Badghis	182
6	Reforestation	Badghis	500
7	Canal cleaning	Ghor	2,545
8	Construct culverts	Ghor	122
9	Road Rehabilitation and Graveling	Ghor	2,860
Total reported beneficiaries for which supporting documentation was not provided:			**14,075**

Questioned costs: None

Effect: The information reported to USAID may have been inaccurate or unreliable thus resulting in a misunderstanding of actual benefits earned as a result of the Government's investment.

Cause: Lack of an internal control over performance reporting resulted in the unsupported amounts and reporting discrepancies being undetected. World Vision also indicated that the staff was unable to locate the information due to resource constraints such that the auditee elected not to search for the requested documentation.

Recommendation: We recommend that World Vision document a procedure for the development and review of performance reports. The procedure should include review of supporting documentation underlying data to be reported to the Government.

(Continued)

Finding 2013-07: Reporting: Timely Submission of Federal Reports

Material Weakness and Non-Compliance

Criteria: In accordance with the provisions of 22 CFR Parts 226.51 and 226.52, quarterly reports are due to the awarding agency within 30 days following the end of the reporting period. Final reports are due within 90 calendar days of the award year.

Condition: World Vision consolidated two quarterly performance reports - the reports for the reporting periods ended September 30, 2009, and December 31, 2009. Documentation indicating that the Agreement Officer approved the consolidation of the required reports was not provided by the auditee. The consolidated report was submitted on March 10, 2010, which was greater than 30 days after the submission date mandated by USAID within the financial assistance regulations. In addition, World Vision did not produce documentation showing that five other reports were submitted to USAID: the Quarterly Performance report for October-December 2010, the Final Report, and three Financial Status Reports for the periods July - September 2009, October - December 2009, and October - December 2010. Thus, one cannot determine if World Vision submitted the reports by the deadlines prescribed in the cooperative agreement and applicable Federal regulations.

Questioned costs: None

Effect: Failure to submit reports to USAID in a timely manner may have inhibited the Agency's ability to monitor the project to the extent desired.

Cause: Reports were consolidated due to the project's being new and there being no data to report. World Vision does not have access to the historical emails for those individuals who submitted reports as they are no longer employed by World Vision. As a result, evidence supporting report submissions could not be produced.

Recommendation: We recommend that World Vision document, within its reporting procedures, a process by which senior management periodically reviews supporting documentation evidencing that the project team submitted the required reports by the deadlines prescribed within the cooperative agreement. We further recommend that World Vision attach documentation of submission to the supporting report workpapers.

(Continued)

Finding 2013-08: Procedures to Prevent Funding Suspended, Debarred, or Excluded Parties

Significant Deficiency and Non-Compliance

Criteria: World Vision's procedures require that vendors, contractors, employees, and subgrantees be screened to determine if they are suspended, debarred, excluded, or blocked. Searches for blocked parties are required when associated costs meet or exceed $5,000, and excluded parties searches are required when associated costs meet or exceed $25,000.

Per Title 22, Part 226.13 of the Code of Federal Regulations, World Vision must comply with the debarment and suspension requirements presented in 22 CFR Part 208. In accordance with the aforementioned regulations and common rule, World Vision is restricted from providing Federal funds to debarred, suspended, or otherwise excluded parties.

Pursuant to 22 CFR Part 208.220, contracts awarded by World Vision that exceed $25,000 are considered to be subject to the requirements specified (i.e. these items are considered "covered transactions"). As prescribed in 22 CFR Part 208.300, World Vision may meet the requirement by a) checking the Excluded Parties List System ("EPLS"); b) collecting a certification from [the party] if permitted by the regulation; or c) Adding a clause or condition to the covered transaction with [that party].

Section C.28 of the cooperative agreement states as follows, "The Contractor/Recipient is reminded that U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. It is the legal responsibility of the contractor/recipient to ensure compliance with these Executive Orders and laws."

Condition: World Vision did not conduct searches during the period of performance for twenty-two of sixty-one procurement transactions that were funded through the FIRUP project. Of the twenty-two covered transactions, one transaction containing multiple parties was noted as containing parties that may be excluded. The specific individuals that were reflected in the System for Award Management as being excluded were: [redacted], [redacted] [redacted], [redacted], [redacted], and [redacted]. The value of the associated transaction was $1,140. Using the data available from the Federal resources and due to World Vision's not having conducted checks for excluded or prohibited statuses during the period of performance, one cannot determine if the identified entities were excluded during the performance period.

Questioned costs: $1,140, which represents the payments made to the aforementioned individuals.

Effect: The Government may have funded vendors that were prohibited from receiving financial assistance from the Government directly or indirectly or were otherwise excluded from receiving funding for the FIRUP project.

Cause: World Vision did not have a policy or procedure mandating the searches prior to adoption of the Policy on Blocked Parties Screening effective September 1, 2012.

Recommendation: We recommend that World Vision contact the vendors and individuals identified and obtain both a certification from the parties regarding their excluded or non-excluded status during the period of performance and also request corroborating documentation, if available, showing that the parties were not suspended, debarred, excluded, or blocked. If World Vision cannot provide adequate support indicating that the vendors and individuals were eligible to receive Government funds, then the $1,140 in questioned costs should be refunded to the Government.

(Continued)

Finding 2013-09: Allowable Costs: Payment for Beneficiary

Non-Compliance

Criteria: OMB Circular A-122 states, "(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8.m(2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency."

Condition: One beneficiary's timesheet indicated that (s)he was paid for one day that the individual did not work. The individual was paid for 19 days rather than for the 18 days worked. The individual was paid Afs 250 per day, which translates to an overpayment of approximately $6.00 in United States dollars using the applicable currency exchange rate.

Questioned costs: $6.00

Effect: USAID remitted payment to World Vision that was not used for its intended purposes: one beneficiary was paid for a day he or she did not work.

Cause: Labor reports were paid by World Vision without proper review. Supervisors did not review attendance sheets properly prior to issuing payment.

Recommendation: We recommend that World Vision repay the Government the $6.00 that was overcharged to the project.

(Continued)

Finding 2013-10: Generation of a Procurement Population

Significant Deficiency and Non-Compliance

Criteria: 22 CFR Part 226.21(b)(2) requires that World Vision's financial management system provide for "records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to all Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest."

22 CFR Part 226.21(b)(3) requires that World Vision's financial management system provide for effective control over and accountability for all funds, property and other assets."

22 CFR Part 226.2 defines "obligations" as "the amounts of orders placed, contracts and grants awarded, services received and similar transactions during a given period that require payment by the recipient during the same or a future period."

Condition: World Vision could not produce a procurement population consisting of all procurement transactions that resulted in obligations under the award (i.e. purchase orders and contracts or grants awarded). World Vision provided two populations for consideration that were based on expenditure transactions recorded to the general ledger as opposed to unique procurement transactions that ultimately led to the expenditures. Due to World Vision's inability to produce a listing of purchase orders, contracts, and other obligations, the population provided could not be determined to be complete.

In the absence of a complete population of procurements that is available for monitoring and review, World Vision may not execute adequate control over Federal funds. The opportunity for individuals to circumvent the procurement process without being detected through monitoring and audit procedures is increased, and individuals may place orders to vendors selected through previously completed procurement processes without going through World Vision's established procurement procedures to ensure that costs are reasonable, purchases are necessary, and procurement records are complete.

Questioned costs: None

Effect: World Vision employees may circumvent procurement controls, which could result in unnecessary purchases and unreasonable costs being incurred.

Cause: World Vision has traditionally utilized expenditure transactions for purposes of generating procurement populations and does not maintain a listing of procurement transactions and resultant obligations.

Recommendation: We recommend that World Vision establish and document a procedure for the development and maintenance of a procurement register that includes the full procurement population for a given project. The register should contain the contract number, purchase order number, associated award number, and/or other unique identifying information for each completed purchasing/procurement process. World Vision should further incorporate review of this item for accuracy and completeness during its internal audit and/or internal control monitoring procedures.

SECTION II: Summary Schedule of Prior Audit, Review, and Assessment Findings

Cooperative Agreement number 306-A-00-09-00513-00 funding the FIRUP project was included within the scope of the audits conducted in accordance with OMB Circular A-133 for the fiscal years ended September 30, 2009, September 30, 2010, and September 30, 2011. Copies of the audits were provided to Crowe by World Vision. The audit reports included two findings relevant to the FIRUP project. These findings and associated corrective action are summarized below:

Combined Financial Statements and OMB Circular A-133 Compliance Reports, September 30, 2009 (With Independent Auditors' Report Thereon)
The auditors noted, within finding 09-01, that World Vision did not follow its documented policy to verify that vendors had not been suspended or debarred indicating a lack of internal controls and resulting in noncompliance with OMB Circular A-110. World Vision noted, within its corrective action plan, that procedures would be established within fiscal year 2010 that would include comparing vendors to the Excluded Parties List System ("EPLS"). The EPLS included the identities of parties that were suspended, debarred, or otherwise excluded.

Status: During our procedures, we noted that World Vision did not provide evidence supporting that EPLS searches had been conducted for twenty-two of sixty-one procurement selections. This matter is repeated. See Finding No. 2013-08 in this report.

Combined Financial Statements and OMB Circular A-133 Compliance Reports, September 30, 2010 (With Independent Auditors' Report Thereon)
The auditors repeated, within finding 10-01, the suspension and debarment finding noted within the audit reports for the fiscal year ended September 30, 2009. The auditors noted that World Vision did not follow its documented policy and implement the corrective action needed to verify that vendors had not been suspended or debarred indicating a lack of internal controls and resulting in noncompliance with OMB Circular A-110. World Vision noted, within its corrective action plan, that a new software system (WatchDOG Pro) would be rolled out in fiscal year 2011 to aid staff in conducting checks against the EPLS.

Status: During our procedures, we were provided with evidence of the WatchDOG Pro searches that were conducted during fiscal year 2011. This matter is not repeated because World Vision took adequate corrective action.

APPENDIX A – Views of Responsible Officials

World Vision, Inc.
Food Insecurity Response for Urban Populations Program
For the Period March 11, 2009 through January 15, 2011
Summary of Management Comments

During the course of the audit, World Vision made all records available to the auditors. However, the auditors did not examine all available documentation as the auditors limited their audit scope to the FIRUP award only.

Finding 2013-01 contains $667,795 of the total $674,049 in questioned costs identified in this report. The questioned costs totaling $667,795 represent amounts that were undercharged to the Federal Government. World Vision's management provided responses to this finding and remaining nine findings (resulting in questioned costs totaling $6,254) in **Appendix A** of this report.

World Vision, Inc.
Food Insecurity Response for Urban Populations Program
For the Period March 11, 2009 through January 15, 2011
Appendix A – Views of Responsible Officials

Finding 2013-01

World Vision agrees that the method in allocating certain costs to the FIRUP award could have been more precise and consistent. However, the Federal Government did not unintentionally supplement non-Federal projects. In fact, the majority of the costs categorized as "questioned costs" in this report of $667,795 represent amounts that were not charged to any federal award including the FIRUP project. Rather, these costs represent allowable and allocable costs related to the FIRUP project objectives, primarily funded by private non-federal sources. Although World Vision recognizes that a portion of these costs totaling $6,644 was charged to the FIRUP award as indirect charges, the net impact resulted in a net undercharged amount of $661,151. Consequently, this finding would not require any repayment to USAID.

World Vision's methodology during the award period complies with the Cost Principles in OMB Circular A-122 and results in a fair and equitable distribution of reasonable, allowable, and allocable World Vision Afghanistan Office costs. Such costs were audited as part of World Vision's annual A-133 audit, including World Vision's Indirect Cost Rate, in fiscal years 2009-2011, which have been subsequently reviewed and approved by USAID.

In order to clarify internal procedures, World Vision will ensure that the method in allocating costs to federal and private projects is more clear and consistent.

Finding 2013-02

Due to high staff turnover and the fact that this award ended approximately three years ago, World Vision agrees that the World Vision Afghanistan office could not locate certain eligibility documentation associated with a select number of beneficiaries totaling $4,949. However, World Vision does not agree that USG regulations require EPLS screening of individual beneficiaries under this cooperative agreement. Rather, EPLS screening requirements prescribed in 22 CFR Part 208 apply to vendor payments under procurement transactions, rather than cash distributions to beneficiaries.

Finding 2013-03

Under the FIRUP cooperative agreement, World Vision used reasonable estimates in requesting expenditure reimbursements from USAID. World Vision agrees that the nominal imputed interest due on excess cash balances was $295, which provides evidence that such estimates were reasonable.

Finding 2013-04

World Vision agrees that the World Vision Afghanistan Office could not locate supporting documentation related to charges totaling $159. However, the questioned costs totaling $159 do not meet the OMB Circular A-133 questioned cost reporting criteria of "known questioned costs which are greater than $10,000".

Finding 2013-05

World Vision agrees that the World Vision Afghanistan Office could not locate the USAID local mission's approval of World Vision Afghanistan's local currency conversion process. World Vision will take steps to ensure that World Vision Afghanistan staff retain documentation related to any local currency conversion agreements required under any future federal awards.

Finding 2013-06

World Vision agrees that World Vision Afghanistan staff could not locate support for certain beneficiary data included in the performance reports. World Vision will strengthen procedures to ensure that beneficiary data supporting performance reports will be retained.

Finding 2013-07

World Vision agrees that the World Vision Afghanistan Office could not locate evidence of the report submission for two quarterly performance reports. World Vision will re-emphasize to staff the importance of retaining evidence of performance report submission dates to provide proof that reports were submitted on a timely basis.

Finding 2013-08

World Vision agrees that no EPLS screening occurred during the period of performance between FY2009-FY2011. However, World Vision performed an after-the-fact screening of the five individual vendors noted by the auditors, which resulted in no positive matches with the EPLS list associated with the award period. The specific individuals identified by the auditors as potential matches (e.g., due to common and similar names) do not represent excluded parties during the award period. This documentation was provided to the auditors. As such, we do not agree that this finding would result in any questioned costs.

Further, as referenced in Section II of this report, a similar finding regarding EPLS screening was identified in World Vision's FY10 Circular A-133 Audit Report which was subsequently cleared in the Organization's FY11 A-133 report. This resolution was also reviewed and approved by USAID in September 2013.

Finding 2013-09

World Vision agrees with the finding that one transaction of $6 was paid and charged in error. However, the questioned cost amount of $6 does not meet the OMB Circular A-133 questioned cost reporting criteria of "known questioned costs which are greater than $10,000".

Finding 2013-10

World Vision respectfully does not agree with this finding. The Organization's accounting records fully comply with the requirements set forth in 22 CFR 226. As such, World Vision provided to the auditors a complete general ledger detailing all transactions charged to the FIRUP award, including all procurement transactions. Further, no exceptions were noted in any procurement transactions selected for testing.

APPENDIX B – Auditor's Rebuttal

Crowe Horwath LLP, in consideration of the views presented by the management of World Vision, Inc., ("World Vision" or the "auditee"), presents the following rebuttal to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the audit report. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. The absence of a rebuttal indicates that Crowe does not deem it necessary to correct or clarify any response of the auditee.

General Matter

World Vision noted that the questioned costs included in findings 2013-04 and 2013-09 are less than $10,000 and are not required to be reported in accordance with OMB Circular A-133. While management is correct in terms of the questioned costs threshold for A-133 reports, this audit was not intended to and was not conducted in accordance with OMB Circular A-133. In accordance with the reporting requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction, all questioned costs are required to be included within the audit report.

Finding 2013-01

Crowe disagrees with management's assertion that the "methodology during the award period complies with the Cost Principles in OMB Circular A-122 and results in a fair and equitable distribution of reasonable, allowable, and allocable World Vision Afghanistan costs." As management noted within its response, there were direct costs charged to the FIRUP award as indirect charges. Further, management's response did not reference the catalyst for the transfer of direct charges to the indirect cost pool, which management previously disclosed as being a budgetary limitation established for the FIRUP project. The $667,795 reflected within the finding were direct costs associated with implementation of the FIRUP project. The transfer of costs and inconsistent treatment of costs are in direct contravention of the requirements presented within OMB Circular A-122. In accordance with the provisions of OMB Circular A-122, to be allowable, costs must be afforded consistent treatment, conform to any limitations or exclusions set forth in the cost principles or in the award as to types or amount of cost items, and be allocable to the award. A cost is considered to be allocable to an award "if it is treated consistently with other costs incurred for the same purpose in like circumstances" and "may not be shifted to other Federal awards to overcome funding deficiencies or to avoid restrictions imposed by law or by the terms of the award." Thus, the questioned cost amount of $667,795 referenced within the report is accurate as presented.

Whereas the scope of the audit was limited to the FIRUP project and procedures pertaining to indirect cost charges were limited to compliance with and application of the terms, conditions, and rates included within the Negotiated Indirect Cost Rate Agreement ("NICRA"), we did not perform procedures necessary to offer an opinion regarding the impact of the noncompliance on other Federal awards, use of private donor funds, or other auditors' procedures and conclusions. Accordingly, we offer no opinion with regard to these matters.

Finding 2013-02

World Vision indicated within its response to the finding that recipients were not required to review the Excluded Parties List System ("EPLS") to determine if beneficiaries were suspended, debarred, or otherwise excluded. The finding asserts the prohibition on funding those individuals who may potentially be involved in terrorist activities as one of the criteria applicable to reviewing beneficiaries eligibility. The System for Award Management ("SAM") consolidated multiple Federal systems and resources – including matters from the Office of Foreign Asset Control ("OFAC") which identifies excluded individuals who may be suspected of having terrorist involvement. Thus, SAM was utilized for the audit procedure.

Finding 2013-10

World Vision disagreed with the finding due to their having provided general ledger support showing the financial transactions charged to the award. World Vision considered the general ledger to be the document including all procurement transactions. As referenced within the finding, World Vision could not produce a population of completed procurement transactions. A procurement transaction is the outcome or result of procurement procedures that authorizes a vendor to provide a good or service - such as purchase orders and contracts – and results in a financial obligation as defined by 22 CFR Part 226.2. The general ledger support included the actual financial transactions, but did not provide a population of procurement transactions. Thus, the audit finding is unmodified.

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