

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-33 Evaluation Report

**SIGAR Financial Audits: \$494 Million Questioned
Because of Insufficient Supporting Documentation
or Noncompliance with Laws and Regulations**



**MAY
2021**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT SIGAR REVIEWED

SIGAR launched its financial audit program in 2012 because of agency oversight gaps and the growing backlog of incurred-cost audits for contracts, cooperative agreements, and grants awarded in support of overseas contingency operations.

The goal of SIGAR's financial audit program is to identify potential occurrences of waste, fraud, or abuse, and to provide assurance for proper accounting of taxpayer funds. In instances where we question costs charged to the U.S. government, we make recommendations to the funding agency for it to determine whether the questioned costs are allowable, and, if not, to take action to recover funds and prompt corrective action to address internal control deficiencies or non-compliance issues identified that resulted in the questioned amounts. This evaluation summarizes the results of SIGAR's financial audit reports, issued from January 1, 2012, through December 31, 2020, involving awards made by the Department of Defense (DOD), the Department of State (State), the U.S. Agency for International Development (USAID), and the Department of Agriculture (USDA). Additionally, this evaluation analyzes why SIGAR questioned incurred costs and why funding agencies allowed those questioned costs.

The objectives of this evaluation were to (1) summarize the results of our financial audit reports, (2) identify common reasons our financial audit reports questioned awarded costs, and (3) identify common reasons funding agencies either allowed or disallowed the costs we questioned.

May 2021

SIGAR Financial Audits: \$494 Million Questioned Because of Insufficient Supporting Documentation or Noncompliance with Laws and Regulations

SIGAR 21-33 EVALUATION REPORT

WHAT SIGAR FOUND

Between January 1, 2012, and December 31, 2020, SIGAR issued 176 financial audit reports, covering \$8.5 billion in costs incurred on awards funded by DOD, State, USAID, and USDA for Afghanistan reconstruction. In those reports, SIGAR made 467 recommendations, of which DOD, State, USAID, and USDA have closed and implemented 376, or 81 percent, as of December 31, 2020. Further, as of December 31, 2020, 42 recommendations remained open awaiting action from the respective agency. These open recommendations include \$77 million in questioned costs.

SIGAR's reports called into question the allowability of over \$494 million in costs incurred by DOD, State, USAID, and USDA. Our reports included recommendations that agency Contracting Officer/Agreement Officers (CO/AO) determine the allowability of questioned costs and recover them when appropriate. Our reports questioned incurred costs for three reasons: (1) insufficient supporting documentation, (2) noncompliance with laws and/or regulations, and (3) costs incurred outside of the award terms.

Federal guidelines require implementing partners, as award recipients, to comply with our audits, including by preparing a schedule of incurred costs for their award and providing supporting documentation related to those costs and access to their accounting records. However, the costs SIGAR questioned resulted from implementing partners' failure to provide sufficient documentation to show that costs were allowable and complied with federal laws, regulations, and award terms. Forty-one percent of our audits included either a disclaimer or modified opinion on the implementing partner's Special Purpose Financial Statements, meaning their financial data was grossly misstated, not prepared according to standard accounting standards, or could not be deemed accurate. DOD and USAID awards accounted for 87 percent of the questioned costs.

As of December 31, 2020, contracting officers and agreement officers (COs/AOs) at DOD, State, USAID, and USDA made determinations on \$417 million of the \$494 million in questioned costs identified in SIGAR's financial audits, disallowing \$28 million and allowing \$389 million. In determining the allowability of those questioned costs, the CO/AO generally requests supporting documentation from the implementing partner. While agency CO/AO determination letters state the basis for their decisions (i.e., that they received sufficient support), the letters do not specify what supporting documentation COs/AOs reviewed in making their determinations. For example, a determination letter can state that the agency CO/AO reviewed

supporting documentation provided by the implementing partner subsequent to our audit and allowed questioned costs. However, the agency CO's/AO's determination letter does not detail (1) what supporting documentation was reviewed, (2) whether the supporting documentation was the same documentation provided during our audit, or (3) whether it is new supporting documentation that was not provided to our independent auditors.

To determine the reason funding agencies allowed or disallowed questioned costs, SIGAR examined all its financial audits that questioned more than \$5 million of costs and where the CO/AO made a determination on the allowability of those costs. SIGAR identified 12 such reports, which accounted for 71 percent of all the costs questioned in its financial audits. Agency COs/AOs wrote 18 determination letters examining the questioned costs, wherein they made 67 determinations that generally fell into the following four categories: (1) implementing partners subsequently provided sufficient supporting documentation for questioned costs; (2) services were provided to the government; (3) costs were determined to comply with federal law, regulations, and award terms; and (4) costs were shown to have been approved prior to being incurred.

In one such example, we issued a financial audit in March 2019, which reported that a DOD implementing partner could not demonstrate that it performed contractually required training and security background checks on Afghan translators, resulting in over \$6 million in questioned costs. The CO/AO determined all the questioned costs to be allowable because the government received other services from the implementing partner. However, both the CO/AO and the implementing partner acknowledged having no documentation showing that the implementing partner performed all required trainings and security background checks.

WHAT SIGAR RECOMMENDS

We are not making any recommendations in this report because clear criteria already exist that require implementing partners to provide all documentation to federal auditors related to costs incurred on federal awards. Nevertheless, given the issues identified in this report, we urge contracting officers and agreement officers at DOD, State, USAID, and USDA to re-emphasize to implementing partners the importance of these requirements at the outset of awards.

SIGAR provided a draft of this report to DOD, State, USAID, and USDA for review and comment. We received written comments from DOD's Deputy Assistant Secretary of Defense for Afghanistan, Pakistan, and Central Asia; State's Bureau of International Narcotics and Law Enforcement Affairs; and USAID Mission for Afghanistan's Mission Director, which we reproduced in appendices IV, V, and VI, respectively. USDA reviewed the draft of this report and stated it had no comments to be included in the report. DOD also provided technical comments, which we incorporated as appropriate.

In its comments, DOD said the title of the report might mislead readers because, subsequently, DOD's U.S. government contracting and agreement officers reviewed the costs SIGAR questioned in its financial audits and determined many of the costs were allowable. We determined that a change in the title, however, is not necessary because the title accurately reflects the objectives and findings of SIGAR's review. State acknowledged receipt of the draft report and said it had no comments on the report. USAID stated that given the issues identified in the report, it will emphasize to implementing partners the importance of providing auditors with all required documentation for costs incurred on federal awards.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 10, 2021

The Honorable Lloyd J. Austin III
Secretary of Defense

The Honorable Antony J. Blinken
Secretary of State

The Honorable Thomas J. Vilsack
Secretary of Agriculture

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

Federal guidelines require implementing partners to comply with SIGAR audits. This includes preparing a schedule of costs incurred under federal contracts, cooperative agreements, and grants, and providing access to accounting records and supporting documentation related to those costs. This report summarizes our evaluation of SIGAR's financial audits, issued from January 1, 2012, and December 31, 2020, of costs incurred by implementing partners (award recipients) under procurement contracts, cooperative agreements, and grants awarded by the Department of Defense (DOD), Department of State (State), Department of Agriculture (USDA), and the U.S. Agency for International Development (USAID). During that period, SIGAR issued 176 reports that examined approximately \$8.5 billion in incurred costs. As a result of these reports, SIGAR made 467 recommendations, with agencies implementing 376 recommendations, or 81 percent.

SIGAR's financial audit reports recommended that agency Contracting Officer/Agreement Officers (CO/AO) determine the allowability of approximately \$494 million in questioned costs and recover them, when appropriate. Our reports questioned incurred costs for three reasons: (1) insufficient supporting documentation, (2) noncompliance with laws and/or regulations, and (3) costs incurred outside of the award terms.

We found that agency COs/AOs made determinations on \$417 million of questioned costs, disallowing approximately \$28 million and allowing \$390 million. Agency CO/AO determinations allowed questioned costs for four reasons: (1) implementing partners subsequently provided sufficient supporting documentation for questioned costs, (2) services were provided to the government, (3) costs were determined to comply with federal law, regulations, and award terms, and (4) costs were shown to have been approved prior to being incurred.

We are not making any recommendations in this report because clear criteria already exist that requires implementing partners to provide all documentation to federal auditors related to costs incurred on federal awards. Nevertheless, given the issues identified in this report, we urge COs/AOs at DOD, State, USDA, and USAID to re-emphasize to implementing partners the importance of these requirements at the outset of awards.

We received written comments on a draft of this report from DOD, State, and USAID, which we reproduced in appendices IV, V, and VI, respectively. USDA reviewed the draft of this report and stated it had no written comments to be included in the report. DOD also provided technical comments, which we incorporated as appropriate.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

SIGAR conducted this work under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended; and in accordance with the *Quality Standards for Inspection and Evaluation January 2012*, published by the Council of the Inspectors General on Integrity and Efficiency.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

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ABBREVIATIONS

CO/AO	Contracting Officer/Agreement Officer
DOD	Department of Defense
SPFS	Special Purpose Financial Statement
State	Department of State
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture

Congress established SIGAR in 2008 to independently and objectively conduct audits and investigations of reconstruction activities in Afghanistan. Our Audits and Inspections directorate is responsible for conducting and supervising the agency's performance audits, financial audits, inspections, and evaluations of projects and programs implemented to reconstruct Afghanistan. We launched our financial audit program in 2012 due to agency oversight gaps and the growing backlog of incurred-cost audits for contracts and grants awarded in support of overseas contingency operations.¹

This report summarizes the results of our financial audit reports, issued from January 1, 2012, through December 31, 2020, which examined costs incurred through procurement contracts, cooperative agreements, task orders, and grants made by the Department of Defense (DOD), the Department of State (State), the U.S. Department of Agriculture (USDA), and the U.S. Agency for International Development (USAID).² Specifically, this report summarizes the numbers of financial audit reports published, recommendations made, and the status of those recommendations, as well as the amount of incurred costs audited and the amount of questioned costs. Additionally, this evaluation explains why we questioned incurred costs, why funding agencies allowed those questioned costs, and provides examples to illustrate those questioned costs. Our specific objectives were to

1. summarize the results of our financial audit reports,
2. identify common reasons our financial audit reports questioned award costs, and
3. identify common reasons funding agencies either allowed or disallowed the costs we questioned.

We analyzed and reported on findings made by our financial audit reports between January 2012 and December 2020. We also reviewed trends and documents related to SIGAR's findings and agency actions taken in response to these findings, including Contracting Officer or Agreement Officer (CO/AO) determinations. We conducted our fieldwork in Arlington, Virginia, from January 2020 through February 2021, in accordance with *Quality Standards for Inspection and Evaluation*, published by the Council of the Inspectors General on Integrity and Efficiency.

BACKGROUND

Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 established SIGAR for the purpose of preventing and detecting waste, fraud, and abuse in Afghanistan reconstruction programs and operations.³ In carrying out its mission, SIGAR possesses the authorities provided in the Inspector General Act of 1978, as amended, including the authority to enter into contracts for financial audits.⁴ Our Audits and Inspections directorate is responsible for conducting and supervising financial audits of Afghanistan reconstruction projects and programs.

The goal of SIGAR's financial audit program is to identify potential occurrences of waste, fraud, or abuse, and to provide assurance of the proper accounting of taxpayer funds. In instances where we question costs charged to the U.S. government, we make recommendations to the agency that funded that program or project to determine whether the questioned costs are allowable, and, if not, to take action to recover funds and

¹ In accordance with 2 C.F.R. § 200.501, "[a] non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of this part." 2 C.F.R. § 200.503(b) provides that federal Inspectors General, such as SIGAR, may elect to perform the required audit in order to carry out its oversight responsibilities under federal statute or regulation.

² For the purposes of this evaluation, we collectively refer to contracts, cooperative agreements, task orders, and grants as "awards."

³ National Defense Authorization Act for Fiscal Year 2008, Pub. L. No. 110-181, § 1229(a)(2).

⁴ *Ibid* § 1229. See also Inspector General Act of 1978, Pub. L. No. 95-452, § 6(a)(9) (codified as amended at 5 U.S.C. app, § 6(a)(9)).

prompt corrective action to address internal control deficiencies or non-compliance issues identified that resulted in the questioned amounts.

Financial Audit Process

SIGAR uses a seven-step process to complete and issue its financial audits. The seven-step process includes identifying awards to audit, notifying funding agencies of the specific awards under audit, contracting with independent auditors, auditing the awards, and publishing the results of the audit. The seven-step process is cyclical and at any given time, multiple steps in the process may be ongoing. For example, we may be planning our next round of audits while overseeing current audits and closing out or finalizing others. See appendix II for more details on our process.

Acquisition, Assistance, and Financial Audit Roles, Responsibilities, and Definitions

COs/AOs for DOD, State, USAID, and USDA issue awards to implementing partners—the entities that received the awards—for their respective Afghanistan reconstruction programs. COs/AOs have the authority to solicit, negotiate, enter into, administer, modify, terminate, and make determinations on findings of awards made to implementing partners.⁵ COs/AOs have many responsibilities, including determining the structure of an award; establishing the terms and conditions of an award; appointing a representative to assist in managing an award; overseeing implementing partners' fair and equitable treatment; issuing determinations on protests, claims, disputes, and audit findings; and ensuring that the government's award files are properly maintained.⁶

Our financial audits examine cost reimbursable awards according to which award recipients are paid based on the amount of their allowable incurred costs. These awards also establish an estimate of the total cost that the implementing partner may not exceed without prior approval, commonly known as a "ceiling." Agencies typically use cost reimbursable awards when circumstances do not allow them to define their requirements sufficiently to allow for a fixed-price type contract, or when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use a fixed-price contract.⁷ As a result, cost reimbursable awards place the cost risk on the government rather than the implementing partner, as the implementing partner has no incentive to keep costs down.

Our financial audits include an examination of the implementing partner's Special Purpose Financial Statement (SPFS). Federal guidelines require implementing partners to comply with our audits, including preparing a schedule of incurred costs for the award and providing access to accounting records and supporting documentation for those costs.⁸ Examining an implementing partner's SPFS and accounting records requires opinion determination of whether the SPFS presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. government, and the balance for the period audited, in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

In addition to reviewing the accuracy of the SPFS, our financial audits also include three other objectives:

1. Evaluate and obtain sufficient understanding of the implementing partner's internal controls, and identify and report on any internal control deficiencies.
2. Perform tests to determine whether the implementing partner complied, in all material respects, with the award requirements and applicable laws and regulations, and identify and report on instances of

⁵ FAR 1.602-1.

⁶ FAR 1.602-2.

⁷ FAR 16.301.

⁸ 2 C.F.R. § 200.508.

material non-compliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.⁹

3. Determine and report on whether the implementing partner took adequate corrective action to address the report's findings and recommendations from previous engagements that could have a material effect on the SPFS.

Our completed financial audits answer these objectives, including details related to the identification of questioned costs, internal control deficiencies, and instances of noncompliance with applicable requirements.¹⁰ Completed financial audits also include an opinion on whether the implementing partner's SPFS is presented fairly. Those opinions fall into three categories:

1. *Unmodified*: A determination that the SPFS is presented fairly in all material aspects.
2. *Modified*: A determination that the SPFS is either grossly misstated or not prepared in accordance with accounting standards, which can be a fraud indicator.
3. *Disclaimer*: A determination that an opinion could not be reached about whether the SPFS is free of material misstatement. A disclaimer of opinion can occur for several reasons, including questioning a significant amount of incurred costs, a lack of supporting documentation for a significant amount of incurred costs, or insufficient cooperation from the implementing partner during the audit.

SIGAR COMPLETED 176 FINANCIAL AUDITS THAT EXAMINED \$8.5 BILLION IN INCURRED COSTS AND MADE 467 RECOMMENDATIONS

Between January 1, 2012, and December 31, 2020, our 176 financial audit reports examined \$8.5 billion in incurred costs on awards funded by DOD, State, USAID, and USDA.¹¹ Of this total, approximately \$3.1 billion in costs were incurred by DOD, \$643 million incurred by State, \$4.7 billion by USAID, and \$30 million by USDA.

DOD, State, USAID, and USDA funded these awards using four agreement methods: cost-plus-fixed-fee contracts, time and materials contracts, grants, and cooperative agreements.¹² Of the 176 financial audit reports, 92 reviewed cost-plus-fixed-fee contracts, 11 reviewed time and materials contracts, 20 reviewed grants, 48 reviewed cooperative agreements, and 5 reviewed multiple award types within a single audit report.¹³ Figure 1 shows the number of award types audited and the total incurred costs audited by award type.

⁹ When a financial audit uncovers potential instances of fraud, SIGAR's Audit & Inspections directorate refers it to SIGAR's Investigation directorate. Between January 1, 2012, and December 31, 2020, the Audit & Inspections directorate referred 46 potential instances of fraud to our Investigations directorate.

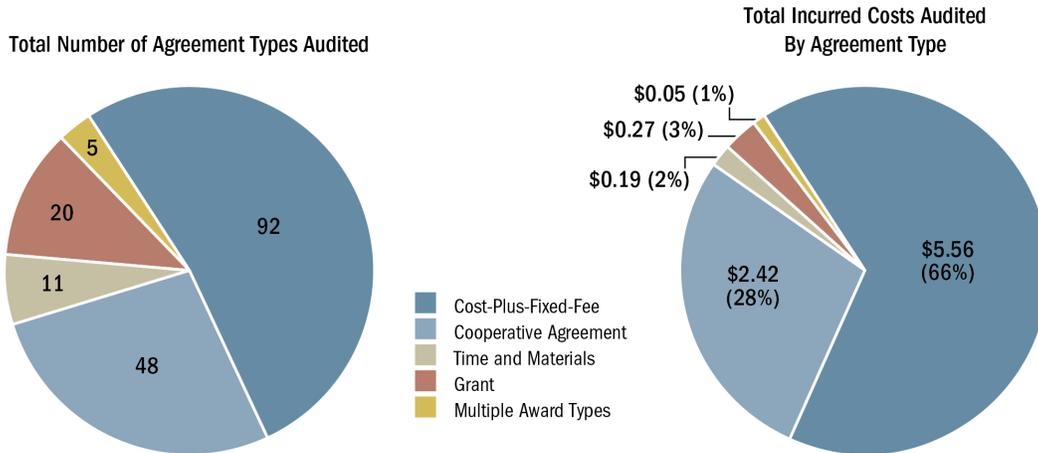
¹⁰ Costs may be questioned because they are either ineligible or unsupported by proper documentation. An internal control deficiency exists when the design or operation of a control does not allow the implementing partner's management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements in a timely basis. Instances of noncompliance may be associated with noncompliance with award terms or applicable laws and regulations.

¹¹ The awards we examined totaled \$14.6 billion, of which we audited \$8.5 billion in incurred costs.

¹² We categorized the completed financial audit reports by the reconstruction sector covered by the program under audit using USAID's sector definitions. USAID has an established approach for defining reconstruction sectors, including categorizing awards into reconstruction sectors. (See appendix III for definitions of each sector.) The largest sectors that our financial audits examined were governance, program support, agriculture, and infrastructure.

¹³ SIGAR may audit multiple award types in a single financial audit to cover all of a program's activities or when auditing a new implementing partner.

Figure 1 - Total Number of Award Types Audited and Total Incurred Costs Audited By Award Type

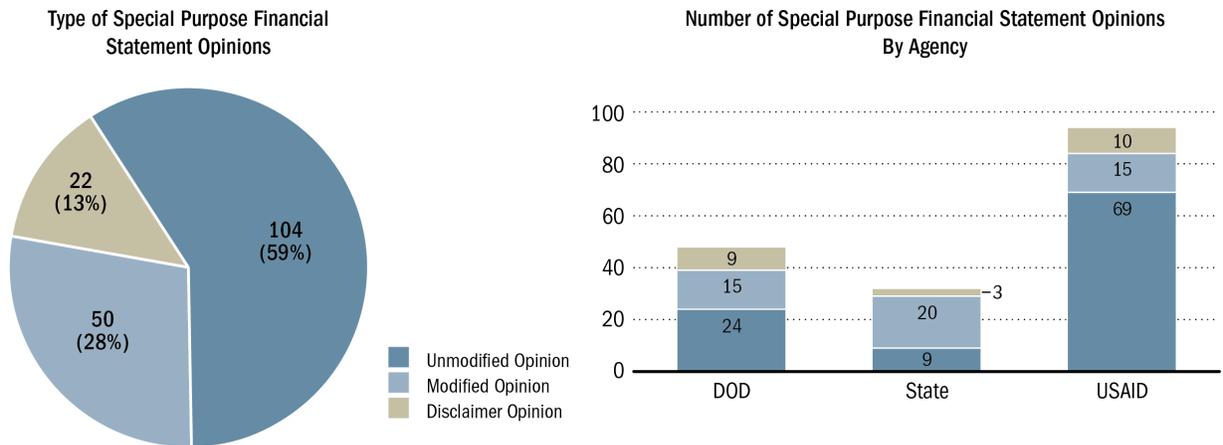


Note: Amounts in figure are in billions of dollars.

Source: Analysis of SIGAR financial audit reports issued between January 1, 2012, and December 31, 2020.

Our audits issued a disclaimer opinion on 13 percent of the audited SPFSs, a modified opinion on 28 percent, and an unmodified opinion 59 percent. Therefore, while the audits determined 59 percent of audited SPFSs were presented fairly, 41 percent of SPFSs had financial data that either was grossly misstated, not prepared according to standard accounting standards, or could not be deemed accurate.¹⁴ Figure 2 shows the total number of SPFS opinions by type and the SPFS opinion types by agency.

Figure 2 - Special Purpose Financial Statement Opinions by Type and By Agency



Note: USDA had only two reports, both of which received unmodified opinions. For presentation purposes, these two reports are not included above.

Source: Analysis of SIGAR financial audit reports issued between January 1, 2012, and December 31, 2020.

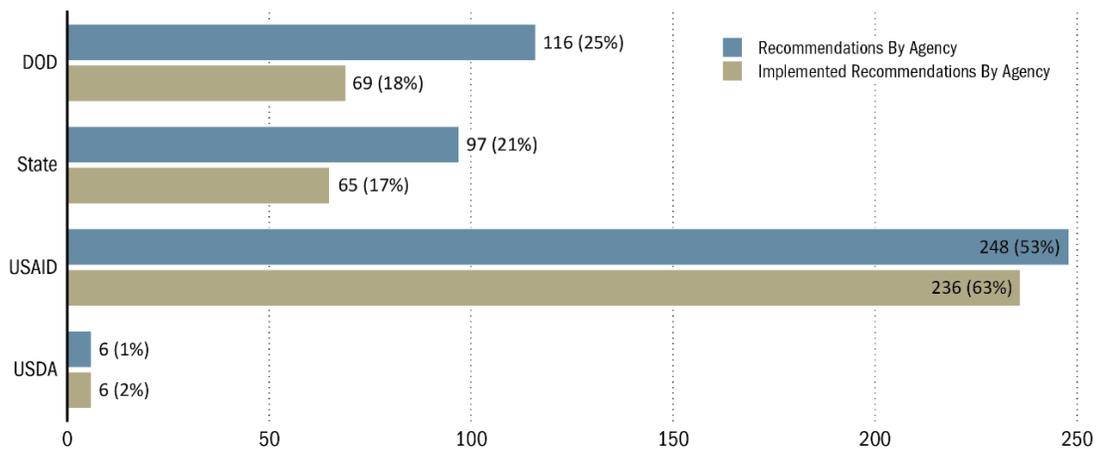
¹⁴ Auditors may be unable to determine if financial data is accurate for a variety of reasons, including questioning a significant amount of incurred costs audited, a lack of supporting documentation for the incurred costs, or insufficient cooperation from the implementing partner under audit.

Agencies Implemented 81 Percent of Financial Audit Recommendations

Between January 1, 2012, and December 31, 2020, SIGAR made 467 recommendations to DOD, State, USAID, and USDA. As of December 31, 2020, we closed 425 of the 467 recommendations, or 91 percent. We closed 376 of these recommendations, or 81 percent, because agencies implemented them, and closed 49 as unimplemented because agencies had either not taken sufficient action or did not provide evidence showing that they took sufficient action to implement the recommendation. As of December 31, 2020, 42 recommendations remained open awaiting action from the respective agency. These open recommendations include \$77 million in questioned costs.

Of the 176 issued reports, we made recommendations in 154 of them. Specifically, we made 116 recommendations to DOD in 39 reports, 97 to State in 31 reports, 248 to USAID in 82 reports, and 6 to USDA in 2 reports. Figure 3 shows the total number of recommendations and the total number of implemented recommendations by agency. Percentages shown are of the total number of recommendations and the total number of implemented recommendations.

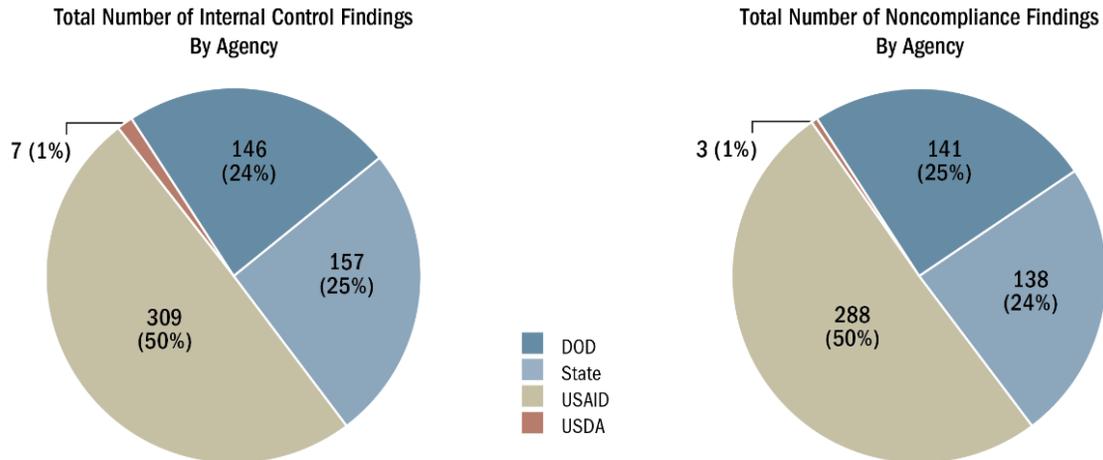
Figure 3 - Total Number of Issued and Implemented Recommendations by Agency



Source: Analysis of SIGAR financial audit reports issued between January 1, 2012, and December 31, 2020.

Our financial audits also prompted improvements in accountability over U.S. reconstruction funds in Afghanistan by recommending DOD, State, USAID, and USDA advise their implementers to improve internal controls and comply with laws, regulations, and award provisions in order to prevent incurring unallowable costs in the future. Of the 467 recommendations included in financial audits between January 1, 2012, and December 31, 2020, 299 recommendations identified 619 internal control deficiencies and 570 non-compliance issues. See figure 4 for the total number of internal control and noncompliance findings by agency.

Figure 4 - Total Number of Internal Control and Noncompliance Findings by Agency



Source: Analysis of SIGAR financial audit reports issued between January 1, 2012, and December 31, 2020.

FINANCIAL AUDITS QUESTIONED \$494 MILLION OF INCURRED COSTS DUE TO A LACK OF SUPPORTING DOCUMENTATION AND NONCOMPLIANCE WITH APPLICABLE REQUIREMENTS

Between January 1, 2012 and December 31, 2020, SIGAR’s financial audits questioned the allowability of \$494 million in costs and SIGAR made 165 recommendations that instructed the funding agencies to determine if the costs were allowable and if other amounts were due, such as interest on unallowable costs. There were three reasons costs were questioned: (1) the implementing partner lacked sufficient supporting documentation to support costs incurred, (2) costs charged to the funding agency did not comply with federal laws and regulations, and (3) cost charged did not comply with award terms. Of the \$494 million in questioned costs, 51 percent, or \$251 million, were for DOD-funded awards.

Financial Audits Recommended Agencies Review \$494 Million in Questioned Costs

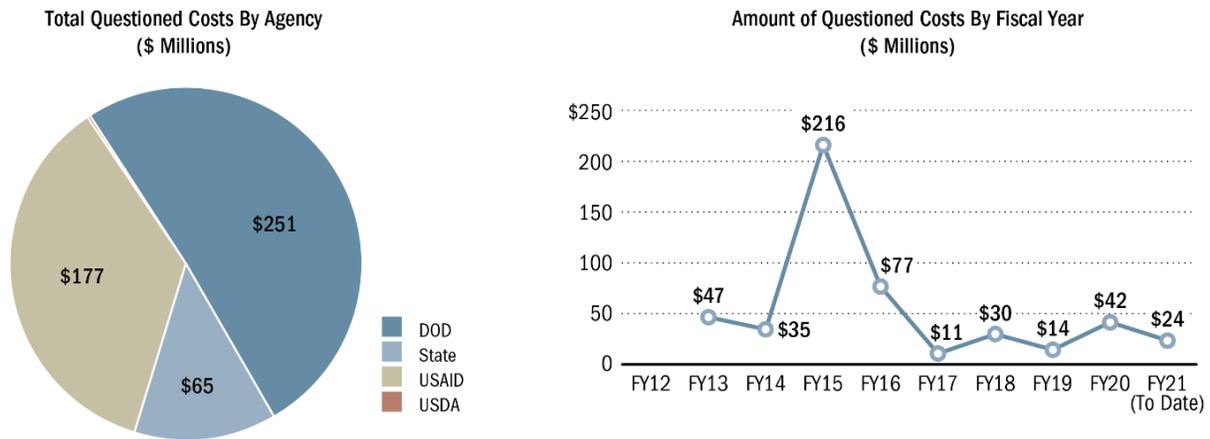
Our financial audits led to improved accountability for U.S. funds spent on reconstruction in Afghanistan by recommending that DOD, State, USAID, and USDA determine the allowability of \$494 million in questioned costs and recover them, when appropriate. Between January 1, 2012, and December 31, 2020, we issued 176 financial audits that examined costs incurred on various DOD, State, USAID, and USDA awards. Those audits resulted in 165 recommendations that directed agencies to review and determine (1) whether questioned costs were allowable, and (2) if other amounts were due to the government, such as interest on any unallowable costs.¹⁵

DOD and USAID awards accounted for 51 and 36 percent, respectively, of all questioned costs. Specifically, our audits found that DOD awards had approximately \$251 million in questioned costs, ranging from audits having no questioned costs to audits questioning \$135 million; on average, DOD audits questioned about \$5.2 million per report. USAID had \$177 million in questioned costs, ranging from reports having no questioned costs to reports questioning approximately \$28 million; on average, USAID audits questioned approximately \$1.9

¹⁵ Of the 176 financial audit reports, 31 did not question any costs. These 31 reports reviewed over \$728 million in incurred costs.

million per report. Figure 5 shows the total amount of questioned costs by agency and the total amount of questioned costs by fiscal year.

Figure 5 - Total Questioned Costs By Agency and Fiscal Year



Source: Analysis of SIGAR financial audit reports issued between January 1, 2012, and December 31, 2020.

Insufficient Supporting Documentation and Non-compliance with Federal Laws and Regulations or Award Terms Led to Questioned Costs

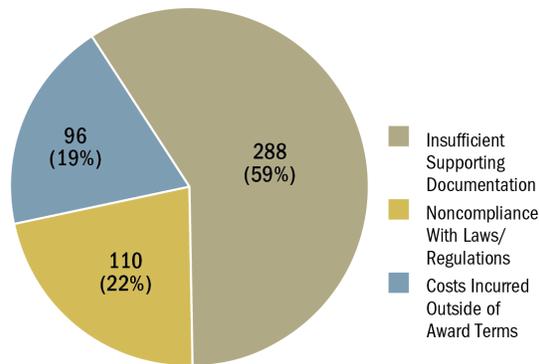
Between January 1, 2012, and December 31, 2020, we identified 652 findings, which questioned the allowability of \$494 million in costs billed to funding agencies. These findings questioned amounts, for either (1) lacking sufficient supporting documentation, or (2) not complying with federal laws and regulations, or (3) not complying with award terms.¹⁶

Fifty-nine percent of all questioned costs resulted from a lack of sufficient supporting documentation, 22 percent were due to costs that were non-compliant with federal laws and regulations, and 19 percent that were noncompliant with award terms. Figure 6 shows the reasons we questioned costs by total amount and agency.

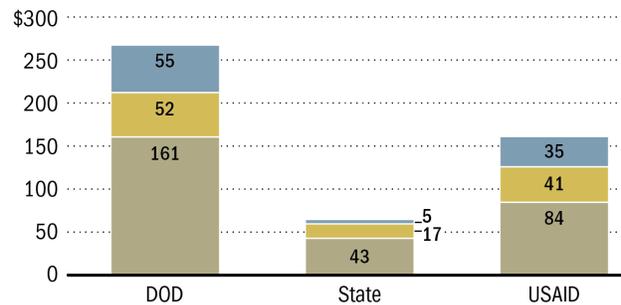
¹⁶ Some examples of costs that are non-compliant with federal laws and regulations can include using incorrect overhead rates, not adhering to policies or procedures, or not competitively bidding sub-contracts. Costs that are noncompliant with award terms include costs that had no prior approval from the CO/AO, costs incurred outside of the award's period of performance, and costs incurred in excess of the award's budget.

Figure 6 - Reasons Why Costs Questioned

Why Costs Were Questioned By Reason (\$ Millions)



Reasons Costs Were Questioned By Agency (\$ Millions)



Note: USDA’s total questioned costs were less than \$1 million, with smaller amounts in each of the three categories. For presentation purposes, USDA is not shown.

Source: Analysis of SIGAR financial audit reports issued between January 1, 2012, and December 31, 2020.

\$288 Million in Questioned Costs Due to Insufficient Documentation

Of the \$494 million in questioned costs, we questioned approximately \$288 million because the implementing partner failed to provide sufficient documentation to support incurred costs. For example, a financial audit of a DOD-funded award to provide highly specialized counterinsurgency intelligence experts to mentor and train Afghan security forces resulted in over \$135 million in questioned costs out of the \$175 million in costs charged to the contract. These questioned costs occurred because the implementing partner was unable to provide sufficient supporting documentation for about \$130 million in incurred costs, and did not obtain competitive bids for about \$5 million in incurred costs.¹⁷ The audit also included a disclaimer of opinion on the SPFS due to the lack of supporting documentation.

In its response to our report, DOD concurred with our recommendation to review the questioned costs and stated that the Defense Contract Audit Agency would perform a more in-depth audit of all contracts held by the implementing partner. Subsequently, we received a letter notifying us that the implementing partner filed for bankruptcy, the U.S. government was submitting a claim, and the Defense Contract Audit Agency could not complete its audits because the implementing partner was “unable to support the audit process or its costs.”

In its claims letter to the implementing partner’s trustee, Defense Contract Audit Agency said that although it was unable to complete all its planned audits of the implementing partner, the audits it was able to complete substantiated our findings and determined that that the implementing partner included unallowable costs in its indirect cost rates. Some of these unallowable costs included executive bonuses; lease expenses for personal vehicles; personal travel expenses—including for a trip to Ireland; personal entertainment expenses associated with rental homes; holiday parties; sporting tickets; clothing for employees; and legal fees associated with selling the company. Additionally, the Defense Contract Audit Agency’s audits determined that the government reimbursed the implementing partner for unallowable direct costs associated with 16 contracts. Some of those unallowable direct costs included paying fees to a company owned by the daughter of the company’s owners, overbilling of subcontractor costs, shifting costs incurred on one contract and billing them to another contract to seek additional reimbursements, and overpaying for indirect cost rates for its subcontractors. We initiated a

¹⁷ SIGAR, *Department of the Army’s Legacy East Project: Jorge Scientific Corporation’s Lack of Supporting Documentation Results in about \$135 Million in Questionable Project Costs*, SIGAR 15-43-FA, April 21, 2015.

criminal investigation into the implementing partner, however the Defense Contract Audit Agency assumed jurisdiction over the investigation after completing its audits.

\$110 Million in Questioned Costs Due to Noncompliance with Laws or Regulations

Of the \$494 million in questioned costs identified in our reports, we questioned approximately \$110 million because the implementing partner failed to comply with applicable laws and regulations. For example, we released a financial audit in 2016 examining costs associated with five State awards to support demining activities in Afghanistan. In it, we reported that the implementing partner purchased a Land Rover vehicle in 2008, three years before State issued the first award, and charged its full new purchase price to State.¹⁸ The implementing partner stated that it had purchased the Land Rover as part of a bulk purchase in order to obtain a discount, and that, although it was three years old, it was unused, and thus had not depreciated in value. Our report questioned the Land Rover's cost for three reasons. First, the implementing partner used the Land Rover for 26 days on the project, yet charged the full new purchase price to the award, which did not comply with guidance from the Office of Management and Budget stating that expenditures for capital assets, such as vehicles, must be charged in the period the expense was incurred.¹⁹ Second, the implementing partner did not obtain prior approval to purchase the Land Rover because the award did not exist at the time of its purchase, which did not comply with Office of Management and Budget guidance stating that expenditures for capital assets, such as vehicles, are not allowed as direct expenses, unless obtaining prior approval by the CO/AO.²⁰ Lastly, the implementing partner did not follow proper accounting principles for the depreciation of vehicles.²¹

In its response to our report, State said that it was “aware of [the implementing partner's] practice of purchasing equipment, stocking it in a warehouse, and charging the equipment to grants at a later date.” Since State was aware of this practice, they determined that the implementing partner had received government approval for the purchase of the Land Rover, even though the implementing partner purchased it three years before the award existed. Additionally, State said that it appeared wasteful for the implementing partner to charge the full new purchase price of a Land Rover used for 26 days on a 2-year award. However, State noted that the implementing partner used the Land Rover on other State projects and, thus, believed it “received value for money” and deemed the cost allowable.

In another example of the same issue, we issued a report in 2014 that audited the costs associated with a State award to provide management services for the architectural design of a new national museum in Kabul.²² The audit determined that the award allocated \$3.39 million for seven full time employees. However, during the course of our audit, the implementing partner's two directors stated that they divided the work of the seven full time employees amongst themselves. Our audit determined that, the two directors were the only full time employees on the project, and based on the hours the two directors reportedly worked, they both paid themselves \$2.69 million, or 79 percent, of the allocated salary expenses. We reported that this violated the Code of Federal Regulations because the implementing partner charged the salary expense of 3.6 employees, when only two employees performed the work.²³ State reviewed these questioned costs, determined that they were allowable, and did not provide further explanation.

¹⁸ SIGAR, *Department of State's Demining Activities in Afghanistan: Audit of Costs Incurred by the HALO Trust*, SIGAR 16-25-FA, March 23, 2016.

¹⁹ Office of Management and Budget, Circular A-122 “Cost Principles for Non-Profit Organizations,” Attachment B section 15(b)(4), May 10, 2004.

²⁰ Office of Management and Budget, Attachment B section 15(b)(1).

²¹ Office of Management and Budget, Attachment B, Paragraph 11.

²² SIGAR, *Department of State's Project for Architectural and Engineering Design of the National Museum in Kabul, Afghanistan: Audit of Costs Incurred by Sayed Majidi Architecture and Design*, SIGAR 15-13-FA, November 3, 2014.

²³ SIGAR, *Department of State's Project for Architectural and Engineering Design of the National Museum in Kabul, Afghanistan*, November 3, 2014.

\$96 Million in Questioned Costs Due to Noncompliance with Award Terms

Of the \$494 million in questioned costs identified in our reports, we questioned approximately \$96 million because the implementing partner incurred costs that did not comply with the award's terms. For example, we reported in 2016 on the costs associated with a DOD-funded award to provide 8,000 Afghan translators to support U.S. operations in Afghanistan.²⁴ That report audited over \$492 million and called into question almost \$59 million in incurred costs, primarily because the implementing partner did not receive prior approval for its subcontract awards. The dollar value of the questioned costs resulted in a disclaimer opinion on the SPFS. In its determination on the allowability of the questioned costs, DOD agreed with our findings and stated, "the required processes were not followed." However, DOD ultimately allowed the questioned costs because it concluded that records demonstrated that the government received services from the implementing partner, that the implementing partner incurred costs in providing those services, and that the government received value for the services provided. DOD agreed that approximately \$370,000 in questioned costs we identified were unallowable and recovered those funds.

AGENCIES MADE DETERMINATIONS ON \$417 MILLION OF \$494 MILLION IN QUESTIONED COSTS

As of December 31, 2020, agency CO's/AO's made a determination on \$417 million of the \$494 million in questioned costs we identified in our financial audits, disallowing \$28 million and allowing \$390 million. To determine the reason funding agencies allowed or disallowed questioned costs, we examined all of our financial audits that included questioned costs of more than \$5 million and where the CO/AO made a determination on the allowability of those costs. We identified 12 such reports, which accounted for 71 percent of all the costs we questioned in our financial audits. Agency COs/AOs wrote 18 determination letters examining the questioned costs, wherein they made 67 determinations that generally fell into the following four categories: (1) implementing partners provided supporting documentation, (2) services were provided to the government, (3) costs complied with regulations, and (4) costs were approved prior to being incurred.

Agencies Disallowed \$28 Million of the \$417 Million in Questioned Costs Reviewed

As of December 31, 2020, COs/AOs at DOD, State, USAID, and USDA made determinations on about \$417 million of the \$494 million in questioned costs, disallowing \$28 million and allowing over \$390 million.²⁵ Our review of agency CO/AO determinations found that DOD disallowed 4 percent of its total awards' questioned costs; USAID disallowed 5 percent of its total awards' questioned costs; State disallowed 15 percent of its total awards' questioned costs, and USDA allowed 6 percent of its total awards' questioned costs. Although State awards accounted for only 13 percent of all questioned costs, State disallowed approximately \$10 million, or 37 percent, of the \$28 million in disallowed costs from all agencies.

To determine the reason funding agencies allowed or disallowed questioned costs, we examined all SIGAR reports that included questioned costs of more than \$5 million and where the CO/AO made a determination on the allowability of those costs. Based on these criteria, agencies had made determinations on 12 such reports, including 4 for DOD, 1 for State, and 7 for USAID.²⁶ Those 12 reports accounted for \$352 million in questioned

²⁴ SIGAR, *Department of Defense's Translation and Interpretation Management Services: Audit of Costs Incurred by Mission Essential Personnel, LLC*, SIGAR 16-53-FA, August 17, 2016.

²⁵ As of December 31, 2020, agencies have not made determinations on reports containing approximately \$77 million in questioned costs.

²⁶ Based on our criteria, 16 financial audit reports contained more than \$5 million in questioned costs. Of those 16 reports, agency COs/AOs had reviewed and made determinations on 12. We examined those 12 reports' determination letters for the reasons why agency COs/AOs allowed or disallowed questioned costs. The 12 reports are: 13-01-FA, 13-10-FA, 14-20-FA, 14-39-FA, 15-20-FA, 15-43-FA, 15-71-FA, 15-73-FA, 16-53-FA, 16-61-FA, 17-55-FA, and 19-23-FA.

costs, or 71 percent of the total amount of questioned costs from all 176 financial audit reports. Based on our analysis, we determined that agency COs/AOs allowed \$335 million of the \$352 million in questioned costs and disallowed \$17 million.²⁷

Contracting Officers Cited Multiple Reasons for Allowing Questioned Costs

In response to our recommendations instructing agency COs/AOs to determine the allowability of questioned costs, agency COs/AOs write a determination letter that documents the COs/AOs review of the questioned costs in the audit report, make a determination on the allowability of the costs, and provide the reasoning for the determination.²⁸ In determining the allowability of those questioned costs, the CO/AO generally requests supporting documentation from the implementing partner. In cases where questioned costs are ultimately deemed allowable, the CO/AO determination may be due to, in full or in part, the implementing partner providing supporting documentation that the agency CO/AO determined sufficient to support the questioned costs. While agency CO/AO determination letters state the basis for their decisions (i.e., that they received sufficient support), the letters do not specify what supporting documentation COs/AOs reviewed in making their determinations. For example, a determination letter may state that the agency CO/AO reviewed supporting documentation provided by the implementing partner subsequent to our audit and allowed questioned costs. However, a determination letter does not detail (1) what supporting documentation was reviewed, (2) whether the supporting documentation was the same documentation provided during our audit, or (3) whether it is new supporting documentation that was not provided during our audit.

Agency COs/AOs wrote 18 determination letters for the 12 financial audits wherein they made 67 determinations to fully or partially allow \$335 million of the \$352 million in questioned costs. The reasons cited by the COs/AOs generally fell into the following four categories:²⁹

1. *Supporting Documentation Provided:* In 31 of the 67 determinations related to our audits, agency COs/AOs stated that the implementing partner subsequently provided sufficient supporting documentation to allow the questioned costs. Of the \$352 million in questioned costs identified in our 12 reports, we questioned approximately \$210 million because implementing partners failed to provide sufficient documentation during our audits to support costs incurred. However, the COs/AOs ultimately allowed \$195 million because implementing partners later provided them with sufficient documentation.

For example, we questioned over \$13.5 million in costs associated with a USAID agriculture employment award due to a lack of documentation showing the allowability of incurred costs.³⁰ The first determination letter stated that despite the implementing partner not obtaining the required proper waiver for certain purchases—the basis for our questioning \$6.7 million—the costs had been approved and “that can’t be changed.” In its second and third determination letters, the CO/AO allowed all \$13.5 million in questioned costs, with the exception of \$103, because the CO/AO determined that the implementing partner provided sufficient documentation to determine that all of

²⁷ Specifically, the 12 reports analyzed \$217 million (87 percent) of all questioned costs for DOD awards; \$5.4 million (8 percent) for State; and \$129 million (73 percent) for USAID. Of those amounts, DOD disallowed \$9 million (4 percent) of questioned costs reviewed; State disallowed \$5.4 million (100 percent); and USAID disallowed \$2.7 million (2 percent).

²⁸ COs/AOs may write multiple determination letters for a report, and each determination letter may contain multiple reasons why questioned costs are allowed or disallowed. Additionally, a CO/AO may write a determination letter that changes the determination in a prior letter.

²⁹ There were three instances where questioned costs from our audits were allowed because of the formal appeals process or settlements. The formal appeals process occurs when implementing partners file formal appeals of agency CO/AO determinations; one case involved an appeal. Settlements occur when an agency CO/AO makes a determination and subsequently settles for a specified amount; two cases involved a settlement.

³⁰ SIGAR, *Audit of Costs Incurred by Chemonics International, Inc. in Support of USAID's Alternative Livelihoods Program—Southern Region*, SIGAR 13-01-FA, June 6, 2013.

SIGAR's questioned costs were allowable, even though the first determination letter conceded to the missing required supporting documentation for \$6.7 million.

2. *Services Provided to the Government:* In 18 of the 67 determinations related to our audits, agency COs/AOs reviewed the questioned costs and determined that although the costs could be disallowed, the U.S. government received services and value, and therefore the questioned costs were allowable. Of the \$352 million in questioned costs identified in our 12 reports, agency COs/AOs allowed \$93 million because the CO/AO determined that the implementing partner provided services to the government, in some cases even if there was insufficient documentation or a failure to comply with laws and regulations.

For example, we issued a financial audit in March 2019 in which we reported that a DOD implementing partner could not demonstrate that it performed contractually required training and security background checks on the Afghan translators, which resulted in over \$6 million in questioned costs.³¹ The CO/AO determined all the questioned costs to be allowable because the government received services from the implementing partner. However, both the CO/AO and the implementing partner acknowledged having no documentation showing that the implementing partner performed all required trainings and security background checks.

3. *Costs Complied with Regulations:* In 14 of the 67 determinations related to our audits, agency COs/AOs reviewed the questioned costs and determined that the implementing partner complied with the applicable federal laws and regulations or award terms. Of the \$352 million in questioned costs identified in our 12 reports, we questioned approximately \$69 million because the implementing partner did not comply with applicable laws and regulations. However, the COs/AOs ultimately allowed \$68 million because implementing partners complied with the applicable federal laws and regulations or award terms.

For example from February 2014, we issued a financial audit that questioned approximately \$14 million.³² We questioned those costs primarily because the implementing partner was unable to provide records, or provided insufficient records, to demonstrate that it complied with laws and regulations related to competitive and proper bidding practices for sub-contracts, billing costs for incomplete work, and for costs incurred after a sub-contract's termination. The agency CO/AO wrote two determination letters stating that the CO/AO had reviewed supporting documentation and allowed \$11.9 million in questioned costs. The CO/AO disallowed \$2.3 million. The implementing partner appealed the CO/AO determination, arguing that only \$325,000 should be disallowed and the remaining \$2 million should be allowed. In the appeal determination, USAID's Acting Assistant Director for the Bureau of Management agreed with the implementing partner and determined the \$2 million was allowable.

4. *Costs Approved Prior to Being Incurred:* In 4 of the 67 determinations related to our audits, agency COs/AOs reviewed the questioned costs and determined the implementing partner obtained the proper approvals prior to incurring the costs. Of the \$352 million in questioned costs identified in our 12 reports, we questioned approximately \$73 million because the implementing partner failed to receive CO/AO approval before incurring costs. However, COs/AOs ultimately allowed all but \$267,000 of these costs because implementing partners obtained the proper approvals prior to incurring them.

For example, in a January 2014 financial audit, we questioned \$3.4 million because the implementing partner did not provide documentation showing that it received prior approval from USAID to use other

³¹ SIGAR, *Department of the Army's Law Enforcement Professionals Program: Audit of Costs Incurred by Engility Corporation*, SIGAR 19-23-FA, March 8, 2019.

³² SIGAR, *USAID's Strategic Provincial Roads Program: Audit of Costs Incurred by International Relief and Development, Inc.*, SIGAR 14-39-FA, February 25, 2014.

than lowest cost airfare options.³³ The CO/AO ultimately allowed the costs based on documentation subsequently provided to by the implementing partner, but the CO/AO conceded that the implementing partner failed to provide sufficient documentation during the course of our audit.

CONCLUSION

Between January 1, 2012, and December 31, 2020, our financial audit reports called into question the allowability of over \$494 million in costs incurred by DOD, State, USAID, and USDA. Of those audits, 41 percent included either a disclaimer or modified opinion on the implementing partner's SPFS, meaning their financial data was grossly misstated, not prepared according to standard accounting standards, or could not be deemed accurate.

Most of the costs we questioned were the result of implementing partners providing us with insufficient documentation to demonstrate that costs were allowable. In response to our questioning costs, agency COs/AOs often issued determination letters stating that they received supporting documentation subsequent to our audits, which resulted in their determination that the questioned costs were allowable. However, those letters generally did not detail (1) what supporting documentation the CO/AO reviewed, (2) whether implementing partners provided the same supporting documentation during our audit, or (3) whether the implementing partners provided new supporting documentation to the CO/AO that was not provided during our audit.

Implementing partners' failure to provide sufficient supporting documentation to us during our audits undermines our ability to perform accurate audits on the allowability of costs incurred on DOD, State, USAID, and USDA-funded awards, creating additional work for agency COs/AOs, and potentially circumventing the financial audit process. We are not making any recommendations in this report because clear criteria already exist requiring implementing partners to provide all documentation to federal auditors related to costs incurred on federal awards. Nevertheless, given the issues identified in this report, we urge COs/AOs at DOD, State, USAID, and USDA to re-emphasize to implementing partners the importance of these requirements at the outset of awards.

AGENCY COMMENTS

We provided a draft of this report to DOD, State, USAID, and USDA for review and comment. We received written comments from DOD's Deputy Assistant Secretary of Defense for Afghanistan, Pakistan, and Central Asia; State's Bureau of International Narcotics and Law Enforcement Affairs; and USAID Mission for Afghanistan's Mission Director, which we reproduced in appendices IV, V, and VI, respectively. USDA reviewed the draft of this report and stated it had no written comments to be included in the report. DOD also provided technical comments, which we incorporated into the report as appropriate.

In its comments, DOD's Deputy Assistant Secretary of Defense for Afghanistan, Pakistan, and Central Asia said the title of the report "may mislead readers" because 94 percent of the reviewed questioned costs were allowed, and 99.7 percent of \$8.5 billion in incurred costs examined by SIGAR resulted in no questioned costs, or were allowed by COs/AOs. We determined that a change in the title is not necessary because it is factual and clearly characterizes the principal point of the report. DOD stated that it appreciates SIGAR's work in ensuring DOD is a good steward of federal resources.

In its comments, State's Bureau of International Narcotics and Law Enforcement Affairs said it respects SIGAR's role in safeguarding U.S. taxpayer investment and shares the goals of implementing programs free

³³ SIGAR, *USAID's Community Development Program: Audit of Costs Incurred by Central Asia Development Group Inc.*, SIGAR 14-20-FA, January 9, 2014.

from waste, fraud, and abuse. State acknowledged receipt of the draft report and stated it had no comments on the substance of the report.

In its comments, USAID Mission for Afghanistan's Mission Director stated that USAID requires all implementing partners to provide accurate, timely, and appropriate documentation for all incurred costs associated with federal awards to auditors. Given the issues identified in the report, USAID stated it would emphasize to implementing partners the importance of providing auditors with all required documentation for costs incurred on federal awards.

APPENDIX I - SCOPE AND METHODOLOGY

This report summarizes SIGAR's financial audit reports of the Department of Defense (DOD), Department of State (State), the U.S. Department of Agriculture (USDA), and the U.S. International Development Agency (USAID) issued between January 1, 2012, and December 31, 2020. Our objectives were to (1) summarize the results of SIGAR's financial audit reports; (2) identify common reasons SIGAR's financial audit reports questioned award costs; and (3) identify common reasons funding agencies either allowed or disallowed the costs SIGAR questioned.

These reporting objectives are different from the objectives detailed in the evaluation's notification letter sent to each agency. The original notification objectives were to: (1) summarize SIGAR financial audit findings; (2) assess the impacts of DOD, State, USDA, and USAID determinations on SIGAR financial audit findings; (3) determine common themes identified by SIGAR financial audit findings that led to questioned costs; and (4) evaluate the overall impacts of SIGAR financial audits. We determined there were no substantive differences between the notification and reporting objectives, only wording changes to better to reflect the themes within the report.

To answer the first objective, we compiled a list of all SIGAR financial audits, noting the amount of incurred costs audited, total value of the awards examined, the funding agency, the award sector, the type of award, the type of opinion issued, the number of recommendations made, the type of recommendations made, and the status of the recommendations. We then summarized the data to detail different metrics about the awards that SIGAR financial audits have examined.

In categorizing award sectors, we based our sector definitions on the sector definitions USAID uses to categorize its Afghanistan awards. We obtained these sector definitions from USAID's website for the Afghanistan Mission. USAID has an established approach for defining reconstruction sectors, including categorizing each USAID award into a reconstruction sector. Additionally, we used USAID's definitions because 53 percent of financial audit reports audited were USAID awards, USAID provided us with how it categorized the sector for each award, and the financial audit reports of USAID awards totaled 55 percent of the amount of incurred costs SIGAR audited across all of its reports. Using these definitions for consistency, we reviewed a summary of each DOD, State, and USDA award, and organized them into the same USAID categories. We determined that awards fell primarily into nine reconstruction sectors, with an additional SIGAR-devised category for awards that fell outside of those sectors. See appendix III for definitions of each sector.

To answer the second objective, we compiled the total amount of questioned costs for each report. We categorized the total amount of questioned costs by report and agency. To determine why SIGAR questioned the costs, we compiled a separate listing of every questioned cost finding contained in each of SIGAR's financial audit reports, noting the report number, funding agency, type of questioned cost, amount of the questioned cost, and reason the amount was questioned. Based on these details, we found that the questioned costs fell into the three categories discussed within this report. To highlight an example of each category, we judgmentally selected examples from SIGAR financial audit reports. We also examined agency determination letters to explain how agencies came to their determinations on the examples we chose.

To answer the third objective, we compiled the total amount of questioned costs recovered. To find if an agency made a determination to recover funds based on an associated recommendation and to quantify funds recovered, we reviewed SIGAR documentation including audit accomplishment reports, and documentation and correspondence from each agency. To determine the reasons funding agencies allowed or disallowed questioned costs, we judgmentally selected to examine all SIGAR financial audit reports that had questioned costs of \$5 million or more and for which an agency Contracting Officer/Agreement Officer (CO/AO) made a determination on the allowability of those costs. There were 16 reports with questioned costs of \$5 million or more, of which agency COs/AOs made determinations on 12 reports. For those reports, we reviewed, summarized, and categorized the reason(s) agency COs/AOs provided for disallowing costs that SIGAR questioned. To highlight an example for each type of for disallowing questioned costs, we judgmentally

selected examples from the SIGAR financial audit reports selected for examination. We also examined and summarized the agency determination letters to explain how agencies came to their determinations on the examples we chose.

We conducted our work in Arlington, Virginia, from January 2020 to May 2021, in accordance with the *Quality Standards for Inspection and Evaluation January 2012* of the Council of the Inspectors General on Integrity and Efficiency. We believe that the evidence obtained provides a sufficient and reasonable basis for our findings and conclusions based on our objectives. We conducted this evaluation under the authority of Public Law No. 110-181, as amended, and the Inspector General Act of 1978, as amended.

APPENDIX II - SIGAR'S FINANCIAL AUDIT PROCESS

SIGAR uses a seven-step process to complete and issue its financial audits. This process is cyclical and at any given time, multiple steps in the process may be ongoing. For example, SIGAR might be planning its next round of audits while overseeing current audits, and closing out or finalizing others. The following is our seven-step process:

1. *Award Identification:* This step entails identifying funding agency awards for SIGAR to audit. While the process for identifying awards within each funding agency differs due to available award information, we use the same criterion to identify awards for potential audit. Generally, we select awards with any of the following characteristics: (1) reimbursable awards have incurred at least \$5 million in costs,³⁴ or (2) the funding agency has made an award to an implementing partner that we have not audited before, or (3) previous audits of the implementing partner showed significant questioned costs or internal control issues.
2. *Audit De-Confliction:* Once we identify prospective awards to audit, we coordinate our work to avoid duplication of efforts. Our coordination includes reviewing the Comprehensive Oversight Plan for Overseas Contingency Operations, which details oversight activities for Afghanistan, and contacting the Inspector Generals for DOD, State, and USAID.
3. *Audit Notification:* Once a prospective audit has been de-conflicted, we issue a notification letter to the respective funding agency to inform it that a specific award(s) will be subject to financial audit. We also send a letter to the implementing partner—the entity that received the award—to notify it of the planned audit and to obtain relevant information, such as the location of the financial documents, points of contact, and any reported instances of fraud related to the award.
4. *Contracting with Independent Auditors:* The Inspector General Act authorizes Inspectors General to contract with independent auditors to perform financial audits. Contracting with independent auditors enables us to audit multiple awards concurrently and expand our oversight capacity. In this step, we draft a request for quotation from independent audit firms, which includes the awards that we intend to audit. We then review submitted quotations, select an independent audit firm, and issue a contract to perform the financial audits.
5. *Overseeing the Independent Auditors:* After we select an independent auditing firm, we oversee its work. This step is crucial to ensure a quality and impactful audit report. Once the independent auditing firm completes its work, it prepares a report on the Special Purpose Financial Statement (SPFS) audit, which details any findings, including questioned costs and instances of internal control or non-compliance.³⁵ As part of this step, our specialists, including SIGAR's Office of General Counsel, Office of Quality Control, and Forensic Audit Department, review the completed SPFS audit report.
6. *Report Publication:* After we review the independent auditing firm's work and audit report, we summarize the independent auditor's conclusions, and, if appropriate, make recommendation(s) to the applicable funding agency. We then combine the independent auditor's audit report with our summary and transmit that report to the applicable funding agency. At this point, the implementing partner under audit can request redaction of propriety information, such as overhead rates, from public release. Our Office of General Counsel reviews these requests and approves necessary redactions. After redacting proprietary information, we publically issue the financial audit report and publish it to our website.

³⁴ SIGAR does not perform financial audits of firm-fixed-price contracts.

³⁵ An SPFS is a financial statement of an award's implementing partner that presents the revenues received and costs incurred by the award during a specified period. The SPFS must be completed in accordance with a specified basis of accounting and in a predetermined format.

7. *Report and Recommendation Follow-up:* The final step involves following up with funding agencies on recommendations made in the report. The funding agency then, through a determination letter, states whether it concurs with our recommendations and determines the allowability of any questioned costs. During this time, the funding agency's Contracting Officer or Agreement Officer (CO/AO) will gather any needed information and may work with the implementing partner to discuss the questioned costs we identified. The CO/AO is not required to involve us in this process. Once the funding agency's CO/AO makes a determination, it either issues a bill for collection for any amounts determined to be unallowable or deducts the amount from future payments to the implementing partner. If the implementing partner disagrees with the CO's/AO's determination on the allowability of questioned costs, the implementing partner can file a formal appeal.

APPENDIX III - SECTORS COVERED BY FINANCIAL AUDITS

SIGAR financial audit reports have covered multiple reconstruction sectors. In categorizing our reports, we based our sector definitions on the sector definitions the U.S. Agency for International Development (USAID) uses to categorize its Afghanistan awards.³⁶ USAID has an established approach for defining reconstruction sectors, including categorizing each USAID award into a reconstruction sector. We used these definitions because 53 percent of our financial audit reports covered USAID awards, and those audits were 55 percent of the total amount of incurred costs SIGAR audited across all of its reports. Using these definitions, we categorized Department of Defense, State, and Agriculture awards into the same categories for consistency. We determined that awards fell primarily into nine reconstruction sectors, with an additional SIGAR-devised category for awards that fell outside of those sectors. The sectors follow:

1. *Agriculture* awards aim to improve food security, increase agricultural productivity and rural employment, and improve family incomes and well-being.
2. *Democracy and Governance* awards support the establishment of a broadly accepted national government that promotes national unity and effectively serves the needs of the Afghan people.
3. *Economic Growth* awards aim to promote a thriving economy, led by the private sector, through improving economic policy and the business environment. Economic growth awards aim to continue to promote macroeconomic reform, revenue collection, and privatization of state-owned enterprises.
4. *Education* awards aim to support basic education, higher education, and literacy, combined with productive skills training for out of school youth and adults. Awards focus on improving teaching, institutional systems that sustain quality teaching, and providing instructional materials.
5. *Gender* awards are committed to helping remove constraints on women's potential and aim to ensure a better future for Afghanistan's women, their families, communities, and the country. To do this, awards support legal rights for women, help them gain access to public services and jobs, build their capacity, and encourage their inclusion in public life.
6. *Health* awards aim to improve the health status of the general population. The activities aim to train essential health care professionals, educate Afghans about better health habits, enhance provider care, and develop and implement quality assurance systems. Basic health care for rural communities is a priority, primarily focusing on women and children's health.
7. *Infrastructure* awards expand and improve citizen's access to economic and social infrastructure. The building and refurbishing of infrastructure boosts economic growth and agricultural yields, connects rural Afghans to services, and provides schools, clinics, and courthouses for its citizens.
8. *Program Support* awards contain implementing activities exclusively to support the achievement of another program's goals and objectives.
9. *Stabilization* awards aim to improve security, extend the reach of the Afghan government, and facilitate reconstruction in priority provinces. Their core objective is to implement projects that will improve stability so that more traditional forms of development assistance can resume.
10. *Other* awards are those that do not fit into any of the above sectors.

³⁶ "Sector Definitions," USAID.gov, last modified March 29, 2021, <https://www.usaid.gov/afghanistan/about-us>.

APPENDIX IV - COMMENTS FROM THE DEPARTMENT OF DEFENSE



OFFICE OF THE ASSISTANT SECRETARY OF DEFENSE
2700 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-2200

The Honorable John Sopko
Special Inspector General for Afghanistan Reconstruction
1550 Crystal Drive, 9th Floor
Arlington, VA 22202

APR 23 2021

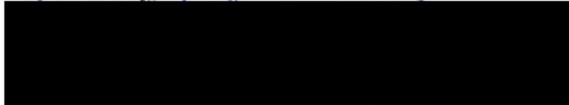
Dear Mr. Sopko:

Thank you for the opportunity to review the Special Inspector General for Afghanistan Reconstruction's (SIGAR) draft evaluation report, "SIGAR Financial Audits: \$494 Million Questioned Due to Insufficient Supporting Documentation or Noncompliance with Laws and Regulations."

According to the draft report, U.S. government contracting and agreement officers have so far reviewed nearly 85% (\$417 million) of the costs SIGAR questioned in its financial audits and determined that 94% (\$390 million¹) of the costs were allowable. Further, of the \$8.5 billion in incurred costs that SIGAR examined in its financial audits, 99.7% (approximately \$8.47 billion) have so far resulted in no questions or were ultimately allowed by contracting and agreement officers. We believe, therefore, that the title of the report may mislead readers, and recommend SIGAR consider a title that more accurately reflects the report's findings.

We appreciate your continued efforts to ensure the Department is a good steward of Federal resources.

Sincerely,



Deputy Assistant Secretary of Defense for
Afghanistan, Pakistan, and Central Asia

¹ The report summary states that contracting and agreement officers allowed \$389 million. However, on page 10 the draft report states that officers allowed \$390 million.

APPENDIX V - COMMENTS FROM THE DEPARTMENT OF STATE



United States Department of State

Washington, D.C. 20520

April 23, 2021

Mr. Scott Harmon
Assistant Inspector General for Audits and Inspections
Special Inspector General for Afghanistan Reconstruction
1550 Crystal Drive, Suite 900
Arlington, VA 22202

Dear Mr. Harmon:

The Department of State welcomes the opportunity to comment on this draft Special Inspector General for Afghanistan Reconstruction (SIGAR) evaluation entitled, “SIGAR Financial Audits: \$494 Million Questioned Due to Insufficient Supporting Documentation or Noncompliance with Laws and Regulations” (dated April 2021). The Department respects SIGAR’s role in safeguarding U.S. taxpayer investment, and we share your goals of implementing programs free from waste, fraud, and abuse.

The Department appreciates SIGAR’s thorough examination of SIGAR’s financial audits reports. The Department’s Bureau of International Narcotics and Law Enforcement Affairs (INL) looks forward to continuing to work with SIGAR and other relevant authorities on these issues. INL acknowledges receipt of the draft report, but does not have any comments at this time.

Sincerely,

Erin M. Barclay

Erin M. Barclay
Executive Director
Bureau of International Narcotics and Law
Enforcement Affairs

APPENDIX VI - COMMENTS FROM THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



USAID | **AFGHANISTAN**
FROM THE AMERICAN PEOPLE

MEMORANDUM

April 16, 2021

TO: John F. Sopko, Special Inspector General for Afghanistan Reconstruction (SIGAR)

FROM: Dr. Tina Dooley-Jones, Mission Director 

SUBJECT: Mission Response to draft SIGAR Evaluation Report titled: "SIGAR Financial Audits: \$494 Million Questioned Due to Insufficient Supporting Documentation or Noncompliance with Laws and Regulations" (SIGAR-21-XX Evaluation Report)

REF: SIGAR Transmittal Email dated March 31, 2021

USAID would like to thank Special Inspector General for Afghanistan Reconstruction (SIGAR) for the opportunity to comment on the draft report entitled, "SIGAR Financial Audits: \$494 Million Questioned Due to Insufficient Supporting Documentation or Noncompliance with Laws and Regulations."

The report did not make any recommendations. USAID requires all implementing partners to provide accurate, timely, and appropriate documentation for program activities to auditors related to costs incurred in Afghanistan for all federal awards.

Nevertheless, given the issues identified in this report, USAID will continue to emphasize the importance to implementing partners that they provide all required documentation to federal auditors related to costs incurred on federal awards.

We appreciate SIGAR's commitment to provide independent and objective oversight of Afghanistan reconstruction projects and activities.

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APPENDIX VII - ACKNOWLEDGEMENTS

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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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