

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-01 Financial Audit

Department of State's Humanitarian
Demining and Conventional Weapons
Destruction Programs in Afghanistan: Audit
of Costs Incurred by The HALO Trust and The
HALO Trust (USA) Inc.

**In accordance with legal requirements, SIGAR has redacted certain information deemed
proprietary or otherwise sensitive from this report**



OCTOBER
2020

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

Beginning on September 1, 2015, the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State) awarded a series of 11 grants totaling \$15,366,756 in support of humanitarian demining and conventional weapons destruction programs. Two of the grants were awarded to The HALO Trust, based in the United Kingdom, and the other nine were awarded to its U.S. affiliate, The HALO Trust (USA) Inc. (HALO). The objectives of the grants were to enhance security, prevent injury, and protect lives by clearing land mines and taking ammunition out of circulation. State made 15 modifications to four of the grants, increasing total funding to \$22,294,590 and extending the period of performance from March 31, 2019 through April 30, 2020.

SIGAR's financial audit, performed by Williams, Adley & Company-DC LLP (Williams Adley), reviewed \$20,763,700 in costs charged to the grants from September 1, 2015, through March 31, 2019. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in HALO's internal controls related to the grants; (2) identify and report on instances of material noncompliance with the terms of the grants and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether HALO has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of HALO's Special Purpose Financial Statement (SPFS). See Williams Adley's report for the precise audit objectives.

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

October 2020

Department of State's Humanitarian Demining and Conventional Weapons Destruction Programs in Afghanistan: Audit of Costs Incurred by The HALO Trust and The HALO Trust (USA) Inc.

SIGAR 21-01-FA

WHAT SIGAR FOUND

Williams Adley identified two material weaknesses in HALO's internal controls and two instances of noncompliance with the terms of the grants. For example, HALO could not demonstrate that allocated payroll charges in seven of the grants, were accurate, allowable, or properly allocated. This occurred, in part, because HALO's records did not identify hours worked, grant, program, mine location, funding agency, or any other metric that might link costs specifically to a grant or final cost objective. Additionally, HALO reported disbursements to State that exceeded information in the general ledger and did not provide supporting documentation reconciling the differences.

Because of the material weaknesses and instances of noncompliance, Williams Adley identified \$2,804,634 in total questioned costs. The questioned costs consist of \$134,280 unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$2,670,354 in ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Various	\$0	\$134,280	\$134,280
Personnel	\$2,452,991	\$0	\$2,452,991
Indirect Charges	217,363	\$0	217,363
Total Costs	\$2,670,354	\$134,280	\$2,804,634

Williams Adley identified one prior audit report relevant to HALO's grants. The audit included nine findings that could have a material effect on the SPFS and other financial data that are significant to this audit's objectives. Williams Adley conducted follow-up procedures and concluded that HALO had not adequately addressed two of the findings.

Williams Adley issued a qualified opinion on the fair presentation of HALO's SPFS noting that the total questioned costs of \$2,804,634 are material to the SPFS.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$2,804,634 in questioned costs identified in the report.
2. Advise HALO to address the report's two internal control findings.
3. Advise HALO to address the report's two noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

October 1, 2020

The Honorable Michael R. Pompeo
Secretary of State

The Honorable R. Clarke Cooper
Assistant Secretary, Bureau of Political-Military Affairs

Ambassador Ross Wilson
U.S. Chargé d'Affaires for Afghanistan

We contracted with Williams, Adley & Company-DC LLP (Williams Adley) to audit the costs incurred by The HALO Trust and The HALO Trust (USA) Inc. (HALO) under 11 grants issued by the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement in support of the Humanitarian Demining and Conventional Weapons Destruction programs in Afghanistan.¹ The objectives of the grants were to enhance security, prevent injury, and protect lives by clearing land mines and taking ammunition out of circulation. Williams Adley reviewed \$20,763,700 in costs charged to the grants from September 1, 2015, through March 31, 2019. Our contract with Williams Adley required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. **Determine the allowability of and recover, as appropriate, \$2,804,634 in questioned costs identified in the report.**
2. **Advise HALO to address the report's two internal control findings.**
3. **Advise HALO to address the report's two noncompliance findings.**

The results of Williams Adley's audit are discussed in detail in the attached report. We reviewed Williams Adley report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on HALO's Special Purpose Financial Statement. We also express no opinion on the effectiveness of HALO's internal control or compliance with the contract, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances in which Williams Adley did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-165)

¹ The grant numbers are S-PMWRA-15-GR-1060; S-PMWRA-15-GR-1061; S-PMWRA-16-GR-1051; S-PMWRA-16-GR-1053; S-PMWRA-16-GR-1054; S-PMWRA-17-GR-1010; S-PMWRA-17-GR-1051; S-PMWRA-17-GR-1056; S-PMWRA-18-GR-0012; S-PMWRA-18-GR-0014; and S-PMWRA-18-GR-0016.

**OFFICE OF THE
SPECIAL INSPECTOR GENERAL FOR
AFGHANISTAN RECONSTRUCTION**

Audit F-165

**Financial Audit of Costs Incurred Under
Grant Numbers:**

S-PMWRA-15-GR-1060, S-PMWRA-15-GR-1061,
S-PMWRA-16-GR-1051, S-PMWRA-16-GR-1053,
S-PMWRA-16-GR-1054, S-PMWRA-17-GR-1010,
S-PMWRA-17-GR-1051, S-PMWRA-17-GR-1056,
S-PMWRA-18-GR-0012, S-PMWRA-18-GR-0014,
and S-PMWRA-18-GR-0016

by

**The HALO Trust (USA), Inc.
and The HALO Trust**

For the Period
September 1, 2015 – March 31, 2019

Submitted by



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Transmittal Letter

July 22, 2020

Mick Darby
The HALO Trust
Carronfoot Thornhill,
Dumfries DG3 5BF
United Kingdom (UK)

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We hereby provide to you our final report, which reflects results from the procedures we completed during our audit of The HALO Trust (USA), Inc. and The HALO Trust (HALO UK) grant numbers S-PMWRA-15-GR-1060, S-PMWRA-15-GR-1061, S-PMWRA-16-GR-1051, S-PMWRA-16-GR-1053, S-PMWRA-16-GR-1054, S-PMWRA-17-GR-1010, S-PMWRA-17-GR-1051, S-PMWRA-17-GR-1056, S-PMWRA-18-GR-0012, S-PMWRA-18-GR-0014, and S-PMWRA-18-GR-0016 with the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State Bureau) programs.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement (SPFS), Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary, Report on Internal Control, or Report on Compliance.

When preparing our reports, we considered comments, feedback and interpretations provided by HALO and SIGAR, in writing and orally, throughout the audit. HALO's responses to the audit reports and our corresponding auditor analysis are incorporated herein.

Thank you for providing us the opportunity to work with you and to conduct the audit of the HALO grants.

Sincerely,

A handwritten signature in cursive script that reads 'Jocelyn Hill'.

Jocelyn Hill, CPA, CGFM
Partner

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

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Summary

Background

The HALO Trust (USA), Inc. (HALO USA) is an American non-profit 501(c)(3) organization that removes debris from countries around the globe left behind by war, in particular ammunition, weapons, and mines. HALO USA is headquartered in Washington DC, United States and became a formal legal entity on March 9, 1988. The HALO Trust (HALO UK), is a foreign non-governmental organization (NGO), located in Dumfries, United Kingdom (UK), that serves as a partner organization¹ of HALO USA. HALO UK provides manual and mechanical demining, survey, ordnance disposal, and training and advocacy services, and has grown its Afghanistan staff to over 3,600.

Beginning on September 1, 2015, the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State Bureau) awarded HALO USA and HALO UK (hereinafter HALO) a series of eleven grants totaling \$15,366,756 in support of their Humanitarian Demining and Conventional Weapons Destruction programs. In nine of the eleven grants awards the recipient was HALO USA whereas in two of the awards the recipient was HALO UK. However, in all nine grants awarded to HALO USA, HALO UK was identified as the subrecipient and according to subaward agreements HALO USA was required to pass through all of the grant funds to HALO UK.

The period of performance for this audit is September 1, 2015 to March 31, 2019. The objectives of the grants were to enhance security, prevent injury and protect lives by clearing land mines and taking ammunition out of circulation. Additional objectives centered around increasing livelihood opportunities through land release procedures and facilitating rural resettlement. Fifteen modifications were made to four of the grants. The modifications increased total funding of the eleven grants to \$22,294,590 and extended the period of performance on four of the grants (see Table 1 below) with the last period concluding on April 30, 2020. We audited a total of \$20,763,700 in costs incurred and applied closeout procedures to the first eight grants included in Table 1 below.

¹ The HALO Trust (USA), Inc.'s proposal to the State Bureau stated that all projects would be implemented on behalf of The HALO Trust (USA), Inc. by its partner organization, The HALO Trust (HALO UK), on the basis of a Professional Services Agreement. The purpose of that arrangement was to reduce additional administrative burdens at the field level while maintaining full transparency and accountability in the use of State Bureau grant funds.

Table 1: HALO Grants with Modifications

Award	Issue Date	Period of Performance	Award Amounts	Purpose
15-1060	9/1/2015	9/2/2015 - 4/30/2016	\$ 694,688.00	Seek out and destroy a minimum of 100 metric tons of ammunition per year.
Amendment 1	1/11/2016	9/2/2015 - 4/30/2016	\$ 300,000.00	Cost amendment - incremental funding
Amendment 2	7/26/2016	9/2/2015 - 4/30/2017	\$ 1,000,000.00	Cost amendment - option year 1
Amendment 3	3/2/2017	9/2/2015 - 4/30/2017	\$ 1,000,000.00	Administrative correction - awarding \$1,000,000 in FY 16/17
Amendment 4	3/10/2017	9/2/2015 - 4/30/2017	\$ (1,000,000.00)	Administrative correction. De-obligating \$1,000,000 from obligation 10396W7024 to correct financial error.
Amendment 5	5/10/2017	9/2/2015 - 4/30/2018	\$ 1,000,000.00	Cost amendment. Awarding \$1,000,000 to execute option year two.
Amendment 6	6/22/2018	9/2/2015 - 4/30/2019	\$ 1,000,000.00	Cost amendment. Awarding \$1,000,000 to execute OY3.
Amendment 7	8/31/2018	9/2/2015 - 4/30/2019	\$ 127,834.00	Cost amendment to award \$127,834.
Amendment 8	4/23/2019	9/2/2015 - 4/30/2020	\$ 1,000,000.00	Cost amendment to exercise Option Year 4. \$1,000,000 in FY18/19 NADR OCO Funds.
Subtotal			\$ 5,122,522.00	
15-1061	8/31/2015	9/1/2015 - 8/31/2016	\$ 2,486,019.00	Base year and no option years. Awarding \$2,486,019 in FY15/16 Afghanistan bilateral funds. The purpose of this award is to remove 39 confirmed hazard areas (CHA) in six (6) districts of Kabul Province and 14 CHA in two (2) districts of Laghman Province.
Subtotal			\$ 2,486,019.00	
16-1051	8/10/2016	10/1/2016 - 9/30/2017	\$ 1,606,532.00	Providing \$1,606,532 in FY16 Afghanistan bilateral funds to support "Project 12: Humanitarian Mine Clearance in Kapisa Province".
Subtotal			\$ 1,606,532.00	
16-1053	8/10/2016	8/11/2016 - 3/31/2017	\$ 1,250,000.00	The overall objective is to seek out and destroy 300 metric tons of ammunition
Amendment 1	3/16/2017	8/11/2016 - 3/31/2017	\$ 1,250,000.00	Administrative correction. Awarding \$1,250,000 in FY16/17 NADR-CWD-OCO Afghanistan funding to fix accounting error.
Amendment 2	3/24/2017	8/11/2016 - 3/31/2017	\$ (1,250,000.00)	Administrative correction. De-obligating \$1,250,000 from obligation 10396W7027
Amendment 3	4/28/2017	8/11/2016 - 3/31/2018	\$ 1,250,000.00	Cost amendment exercising Option Year 1. Awarding \$1,250,000 in FY17/18 NADR-CWD-OCO Afghanistan bilateral funds.
Amendment 4	5/10/2018	8/11/2016 - 3/31/2019	\$ 1,250,000.00	Cost amendment to execute OY2. Awarding \$1,250,000 in FY17/18 AFG NADR-CWD-OCO bilat funds.
Subtotal			\$ 3,750,000.00	
16-1054	8/10/2016	10/1/2016 - 9/30/2017	\$ 1,715,267.00	New award. Providing \$1,715,267 in FY16 Afghanistan bilateral funds to support "Project 11: Humanitarian Mine Clearance in Baghlan Province".
Subtotal			\$ 1,715,267.00	
17-1010	2/1/2017	2/02/2017 - 9/30/2017	\$ 1,299,250.00	New award with one base year and no option years. Awarding \$1,299,250 in FY16/17 NADR-CWD-OCO Afghanistan bilateral funds to support "Project 2: Panjsher, Afghanistan." Allowable, allocable, and reasonable pre-award costs are approved from October 1, 2016
Subtotal			\$ 1,299,250.00	
17-1051	9/19/2017	10/1/2017 - 9/30/2018	\$ 265,000.00	New award. Providing \$1,606,532 in FY16 Afghanistan bilateral funds to support "Project 12: Humanitarian Mine Clearance in Kapisa Province".
Subtotal			\$ 265,000.00	
17-1056	9/19/2017	9/21/2017 - 9/20/2018	\$ 1,000,000.00	To support "Community-based Demining in Logar Province, Afghanistan." Clear 1,561,250 square meters of contaminated land in Logar Province by deploying five manual clearance teams and one mechanical clearance team over a period of 12 months.
Subtotal			\$ 1,000,000.00	
18-0012	5/10/2018	5/10/2018 - 3/31/2019	\$ 1,400,000.00	Awarding \$1,400,000 in FY17/18 NADR-CWD-OCO AFG bilat funds. Pre-award costs approved from 1 Apr. 2018.
Subtotal			\$ 1,400,000.00	
18-0014	5/10/2018	5/10/2018 - 3/31/2019	\$ 2,115,000.00	New award with no option years. Awarding \$2,115,000 in FY17/18 NADR-CWD-OCO AFG bilat funding.
Amendment 1	2/26/2019	5/10/2018 - 5/31/2019	\$0.00	No-cost amendment to extend period of performance to May 31, 2019.
Amendment 2	5/8/2019	5/10/2018 - 7/31/2019	\$0.00	No cost extension through 31 July 2019.
Subtotal			\$ 2,115,000.00	
18-0016	3/28/2018	4/1/2018 - 3/31/2019	\$ 1,535,000.00	New award with no option years. Awarding \$1,535,000 in FY17/18 NADR-CWD-OCO Afghanistan bilateral funds.
Subtotal			\$ 1,535,000.00	
Total			\$ 22,294,590.00	

Work Performed

The Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Williams, Adley & Company-DC, LLP (Williams Adley) to conduct a financial audit and close-out of costs incurred by HALO under the above-mentioned grants and associated modifications. Our audit procedures covered \$20,763,700 in total costs incurred for the period September 1, 2015 through March 31, 2019.

Objectives

The following are the objectives of the audit defined by SIGAR:

Audit Objective 1 - Special Purpose Financial Statement

Express an opinion on whether HALO's Special Purpose Financial Statement (SPFS) for the grants presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the grants and generally accepted accounting principles or other comprehensive basis of accounting.

Audit Objective 2 - Internal Controls

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

Audit Objective 3 – Compliance

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

Audit Objective 4 - Corrective Action on Prior Findings and Recommendations

Determine and report on whether HALO has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the Statement or other financial data significant to the audit objectives.

Scope

The audit included State grant numbers S-PMWRA-15-GR-1060, S-PMWRA-15-GR-1061, S-PMWRA-16-GR-1051, S-PMWRA-16-GR-1053, S-PMWRA-16-GR-1054, S-PMWRA-17-GR-1010, S-PMWRA-17-GR-1051, S-PMWRA-17-GR-1056, S-PMWRA-18-GR-0012, S-PMWRA-18-GR-0014, and S-PMWRA-18-GR-0016 and related modifications executed for revenues applied to and costs incurred during the period September 1, 2015 through March 31, 2019, as reported on the SPFS. This was a close out audit for most of the grants and therefore subject to additional audit procedures. The audit was limited to those matters pertinent to the grants that have a direct and material effect on the SPFS and included an evaluation of the presentation, content and records supporting the SPFS. The following areas were included within the audit program for evaluation:

- i. Administrative Procedures and Fraud Risk Assessment
- ii. Budget Management
- iii. Cash Management
- iv. Disbursements and Financial Reporting
- v. Procurement and Inventory Management
- vi. Close-out Procedures

Our audit was conducted to form an opinion on the SPFS in accordance with the SPFS presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents and Summary are presented for informational and organizational content purposes and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied in the audit of the SPFS, and accordingly, we do not express an opinion or provide any assurance on it.
- The scope of our audit does not include procedures to verify the efficacy of the State funded program, and accordingly, we do not express an opinion or provide any assurance on it.

Methodology

We conducted our audit in accordance with generally accepted auditing standards (GAAS), and generally accepted government auditing standards (GAGAS) as published in the Government Accountability Office's *Government Auditing Standards*. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the SPFS of costs incurred under the grants is free of material misstatement. An audit includes:

- Obtaining an understanding of HALO's internal controls related to the grants, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the SPFS.

To meet the audit objectives, we prepared an audit plan for the engagement.

For audit objective 1, we reviewed transactions for the period September 1, 2015 through March 31, 2019 and subsequent events and information that may have a significant impact on the SPFS for the audit period. We used both statistical and non-statistical sampling techniques to select personnel, travel, equipment, supplies, construction, fringe benefits and other direct cost samples to test for allowability of incurred costs, and reviewed procurement records to determine cost reasonableness. The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

For audit objective 2, we reviewed applicable background materials, including grant agreements, auditee financial progress reports, State regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as made available and provided. To gain an understanding of the control environment, we interviewed management and reviewed business processes to determine if critical internal controls were in place that mirrored best practices such as sufficient management oversight of business processes,

proper segregation of duties, documented policies and procedures, robust financial management systems, and sufficient monitoring of controls to ensure effective implementation thereof. We assessed the control risk for sampling and testing purposes.

For audit objective 3, we performed compliance testing including, but not limited to: determination of allowable costs under Title 2, Part 200 of the Code of Federal Regulations (CFR) cost principles; validation of indirect cost calculations pursuant to a provisional or final negotiated indirect cost rate agreement; testing cash management to ensure funding did not exceed the program's immediate cash needs requirements and confirm excess cash has been returned to the US Government; verification of incurred cost eligibility; confirmation of equipment and real property management and disposal in accordance with an approved disposition plan; determination as to whether expenditures complied with the period of availability of the Federal funds; verification that procurement activities complied with full and open competition standards or justification for noncompetitive bids was documented when applicable, and suspension and debarment of the subcontractor or subrecipient was considered in the grant decision; verification that program income is reported and accounted for separately from donor funds; and determination that financial reporting was accurate, timely and complete. In addition, we performed testing to assess and determine any potential fraud, abuse and illegal acts. For most of the grants we performed close-out procedures to ensure that: unobligated funds and unliquidated advances in excess of cash were returned to the U.S. Government; final program and financial reports were signed and submitted to the funding agency; and the auditee obtained an approved disposition plan.

For audit objective 4, We requested prior audit reports, reviews and assessments pertinent to HALO's activities under the grants. We also performed independent research of publicly available information to identify and review reports. If prior audits indicated a need for corrective action to be taken by HALO, we determined through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations.

Summary of Results

We issued a qualified opinion on HALO's SPFS due to \$2,804,634 in material questioned costs with \$2,670,354 deemed ineligible and \$134,280 in costs that were unsupported. Ineligible costs are unreasonable, prohibited by the grant or applicable laws and regulations, or not related to the award. Unsupported costs are costs not supported with adequate documentation or that do not have prior approval or authorization.

As a result of our audit procedures we identified two material weaknesses in internal control and two instances of noncompliance with the terms and conditions of the grants that are required to be reported under *Government Auditing Standards*.

Table 2: Finding Classifications

Finding No.	Description	Material Weakness	Non-Compliance	Ineligible Costs	Unsupported Costs	Total Questioned Costs
2019-01	Unreasonable and Unsupported Payroll Allocation Method for Administrative Support Staff, Operations Management Employees, and International Employees	√	√	\$ 2,452,991		\$ 2,452,991
2019-02	Unsupported Variance Between General Ledger and Financial Report	√	√		\$ 134,280	\$ 134,280
Total Direct Costs				\$ 2,452,991	\$ 134,280	\$ 2,587,271
Total Indirect Costs				\$ 217,363	\$ -	\$ 217,363
Total Questioned Costs				\$ 2,670,354	\$ 134,280	\$ 2,804,634

The questioned costs are detailed in the [Schedule of Findings and Questioned Costs](#).

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

Status of Prior Audit Findings

We identified one prior audit report, SIGAR 16-25-FA, that was assessed for purposes of determining if there were findings and corrective actions requiring follow-up. The report contained 9 findings that could have a material effect on the SPFS. We performed testing of similar matters during our current audit and determined that HALO had either not repeated or taken corrective action on seven of the findings. The remaining two findings that could have a material effect on the SPFS or other financial data significant to our audit objectives, however, were not adequately addressed. For these two findings we found similar issues during this audit. Please see Status of Prior Audit Findings and Recommendations section for a detailed description.

Summary of Management Comments

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

HALO disagreed with both findings presented in the report and provided a detailed response including tables and charts. They also proposed and implemented corrective actions.

Our rebuttal to management comments is detailed in Appendix B of this report.

Attachments

The auditor's reports are supplemented by two attachments:

- Appendix A - Management's Response to the Findings and Recommendations
- Appendix B - Auditor's Response to Management Comments.



Independent Auditor's Report on the Special Purpose Financial Statement

Mick Darby
The HALO Trust
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Dumfries DG3 5BF
United Kingdom (UK)

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement ("SPFS") of The HALO Trust (USA) Inc. (HALO) for grant numbers S-PMWRA-15-GR-1060, S-PMWRA-15-GR-1061, S-PMWRA-16-GR-1051, S-PMWRA-16-GR-1053, S-PMWRA-16-GR-1054, S-PMWRA-17-GR-1010, S-PMWRA-17-GR-1051, S-PMWRA-17-GR-1056, S-PMWRA-18-GR-0012, S-PMWRA-18-GR-0014, and S-PMWRA-18-GR-0016 and the related notes for the period September 1, 2015 through March 31, 2019.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on this SPFS based on conducting the audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the SPFS is free of material misstatement.

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

accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the SPFS.

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

Basis for Qualified Opinion

We identified \$2,804,634 in costs that were questionable based upon our review of the underlying support for the transactions. HALO used an allocation method for select employee positions that did not follow the Code of Federal Regulations resulting in questioned costs of \$2,670,354. HALO did not provide general ledger detail for all disbursements equal to expenditures claimed on its SF-425 for grants S-PMWRA-15-GR-1060 and S-PMWRA-18-GR-0014 resulting in a questioned cost of \$134,280. The total questioned cost amount is considered material to the SPFS.

Qualified Opinion

In our opinion, except for the effects of the \$2,804,634 in questioned costs described in the Basis for Qualified Opinion paragraph, the SPFS referred to above presents fairly, in all material respects, the respective costs incurred, items procured by the U.S. Government and balance for the period September 1, 2015 through March 31, 2019 in accordance with the terms of the agreement and in conformity with the basis of accounting described in Note 2 of the SPFS.

Basis of Accounting

We draw your attention to Note 2 of the SPFS, which describes the basis of accounting. As described in Note 2 of the SPFS, the SPFS is not presented in accordance with accounting principles generally accepted in the United States of America (GAAP). It has been prepared on the cash basis of accounting. Under the cash basis of accounting revenues are recognized when received.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports, dated January 22, 2020, on our consideration of HALO's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

Restriction on Use

Our report is intended solely for the information and use of HALO, State, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Washington, D.C.
January 22, 2020

The HALO Trust
Special Purpose Financial Statement
September 1, 2015 to March 31, 2019

	Budget	Actual	Questioned Costs		Notes ²
			Ineligible	Unsupported	
Revenues					4, B
S-PMWRA-15-GR-1060	\$4,112,693.13	\$4,009,189.41		\$ 134,280	
S-PMWRA-15-GR-1061	2,486,019.00	2,485,468.95			
S-PMWRA-16-GR-1051	1,606,532.00	1,606,532.00			
S-PMWRA-16-GR-1053	3,736,206.88	3,736,206.88			
S-PMWRA-16-GR-1054	1,715,267.00	1,715,267.00			
S-PMWRA-17-GR-1010	1,299,250.00	1,299,250.00			
S-PMWRA-17-GR-1051	265,000.00	265,000.00			
S-PMWRA-17-GR-1056	1,000,000.00	1,000,000.00			
S-PMWRA-18-GR-0012	1,399,019.00	1,399,019.00			
S-PMWRA-18-GR-0014	2,115,000.00	1,712,766.84			
S-PMWRA-18-GR-0016	1,535,000.00	1,535,000.00			
Total Revenue	\$21,269,987.01	\$20,763,700.08		\$ 134,280	
Costs Incurred					
Personnel	\$ 12,906,210.77	\$ 12,626,512.77	\$2,452,991		5, A
Fringe Benefits	341,757.01	310,576.85			5
Travel	164,657.18	148,360.69			5
Equipment	156,304.73	155,336.72			5
Supplies	5,824,006.03	5,683,750.76			5
Contractual	-	-			5
Construction	170,000.00	170,045.25			5
Other	88,631.00	97,884.38			5
Total Direct Charges	\$19,651,566.72	\$ 19,192,467.42			5
Indirect Charges	1,618,420.29	1,571,232.66	\$ 217,363		5, A
Total Costs Incurred	\$21,269,987.01	\$ 20,763,700.08	\$2,670,354	\$ 134,280	
Outstanding Balance	\$0	\$0			

² The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

The HALO Trust
Notes to the Special Purpose Financial Statement³
 For the Period September 1, 2015 to March 31, 2019

Note 1. Status and Operation

HALO is a not-for-profit corporation organized for the purpose of removal of the debris of war in various areas of the world, incorporated in the State of Maryland. HALO is supported primarily from grants by the United States Department of State and other agencies. HALO also receives support from foundations, individuals, and other organized charities.

Note 2. Summary of Significant Accounting Policies

a. Basis of Presentation

The information in this SPFS is presented in accordance with requirements specified by Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned agreement.

b. Basis of Accounting

The SPFS reflects the revenues received and expenses incurred under the grant agreements issued by the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement. The SPFS is not presented in accordance with accounting principles generally accepted in the United States of America (GAAP). It has been prepared on the cash basis of accounting. Under the cash basis of accounting revenues are recognized when received.

c. Currency

The Special Purpose Financial Statement is presented in United States Dollars. For purposes of preparing the SPFS, expenditures are recorded in US dollars (USD) or UK pounds sterling (GBP). HALO translates this expenditure to USD based upon monthly exchange rates published by the European Commission, in line with recognized accounting practice. Afghanis (AFS) are expended at the rate the bank formally exchanges the USD to AFS.

The rates used by HALO for translation of expenditure to the GBP are:

			Sep-15	Oct-15	Nov-15	Dec-15
GBP/USD			1.539	1.516	1.525	1.505
	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
GBP/USD	1.481	1.43	1.398	1.441	1.459	1.463
	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16
GBP/USD	1.343	1.317	1.311	1.303	1.215	1.247

³ The Notes to the Special Purpose Financial Statement are the responsibility of HALO's management.

	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
GBP/USD	1.225	1.252	1.241	1.246	1.289	1.287
	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
GBP/USD	1.297	1.31	1.292	1.344	1.32	1.34
	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
GBP/USD	1.344	1.413	1.392	1.415	1.376	1.329
	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
GBP/USD	1.309	1.312	1.303	1.316	1.276	1.278
	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19
GBP/USD	1.269	1.309	1.332	1.311	1.291	1.266
	Jul-19					
GBP/USD	1.271					

The rate used by HALO for Afghanis to USD are those shown on the Payment Vouchers (PVs) and are the rates the bank gave HALO for the sale of USD.

Note 3. Variances

None of the over or under-expenditures for the projects above exceed those variances allowable by the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement.

S-PMWRA-15-GR-1060 is an ongoing project under option years.

S-PMWRA-16-GR-1053 is an ongoing project under option years.

Note 4. Revenues

Revenues on the SPFS represent the amount of funds that have been reimbursed to HALO from the Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement for allowable, eligible costs incurred under the contract during the period of performance.

Note 5. Cost Incurred by Budget Category

The budget categories presented, and associated amounts, reflect the budget line items presented within the final Department of State Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement approved budget adopted as a component of the proposal and any amendments made to it.

The HALO Trust
Notes to the Questioned Costs Presented on the
Special Purpose Financial Statement⁴

Note A: Unreasonable and Unsupported Payroll Allocation Method for Administrative Support Staff, Operations Management Employees, and International Employees (Finding 2019-01)

For 7 of the 11 grants audited, HALO charged Administrative Support, Operational Management and International employee wages using an allocation method that does not meet CFR criteria. We are questioning the associated payroll costs charged to 7 of the 11 grants tested. The questioned costs total \$2,670,354 including indirect costs of \$217,363.

Note B: Unsupported Variance Between General Ledger and Financial Report (Finding 2019-02)

We identified a variance between total disbursements per the general ledger (GL) and that reported on the SF-425 in field 10 (b). The amount of disbursements (costs incurred) included on the SF-425 was overstated by \$134,280 when compared to the HALO UK GL and no details were provided to support the overstated amount. The variance results in unsupported questioned costs of \$134,280.

⁴ Alphabetic notes to the questioned costs presented on the Special Purpose Financial Statement were developed by and are the responsibility of the auditor.



Independent Auditor's Report on Internal Control

Mick Darby
The HALO Trust
Carronfoot Thornhill,
Dumfries DG3 5BF
United Kingdom (UK)

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement ("SPFS") and related notes to the SPFS, 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, by The HALO Trust (USA), Inc. (HALO), under United States Department of State grant numbers S-PMWRA-15-GR-1060, S-PMWRA-15-GR-1061, S-PMWRA-16-GR-1051, S-PMWRA-16-GR-1053, S-PMWRA-16-GR-1054, S-PMWRA-17-GR-1010, S-PMWRA-17-GR-1051, S-PMWRA-17-GR-1056, S-PMWRA-18-GR-0012, S-PMWRA-18-GR-0014, and S-PMWRA-18-GR-0016 for the period September 1, 2015 through March 31, 2019, and have issued our report thereon, dated January 22, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, material weaknesses may exist that have not been identified. We did note two material weaknesses in internal control as defined above and described in Findings 2019-01 and 2019-02.

The HALO Trust's Response to the Findings

HALO's response to the findings identified in our audit is included verbatim in Appendix A. HALO's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of HALO, State, and SIGAR. 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.

Williams, Adley & Company-DC, LLP

Washington, D.C.
January 22, 2020



Independent Auditor's Report on Compliance

Mick Darby
The HALO Trust
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Dumfries DG3 5BF
United Kingdom (UK)

Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
2530 Crystal Drive
Arlington, VA 22202

We have audited the Special Purpose Financial Statement ("SPFS") and related notes to the SPFS, 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, of The HALO Trust (USA), Inc. (HALO), under grant numbers S-PMWRA-15-GR-1060, S-PMWRA-15-GR-1061, S-PMWRA-16-GR-1051, S-PMWRA-16-GR-1053, S-PMWRA-16-GR-1054, S-PMWRA-17-GR-1010, S-PMWRA-17-GR-1051, S-PMWRA-17-GR-1056, S-PMWRA-18-GR-0012, S-PMWRA-18-GR-0014, and S-PMWRA-18-GR-0016 for the period September 1, 2015 through March 31, 2019. We have issued our report thereon dated January 22, 2020 with a qualified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HALO's SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, cooperative agreements and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. During testing we considered whether potential fraud or abuse⁵ has occurred or is likely to have occurred and based on documentation obtained we did not find evidence of fraud or abuse that is required to be reported to SIGAR. However, the results of our tests disclosed two instances of noncompliance as noted in Findings 2019-01 and 2019-02 in the Schedule of Findings and Questioned Costs, which are required to be reported under *Government Auditing Standards*.

In addition to the findings enumerated above, we identified another noncompliance matter that we do not consider to be a material weakness, but which warrants HALO

⁵ Because the determination of abuse is subjective, auditors are not required to provide reasonable assurance of detecting abuse.

management's attention. We have communicated this matter to HALO management and, where appropriate, will report on it separately.

The HALO Trust's Response to the Findings

HALO's response to the findings identified in our audit is included verbatim in Appendix A. HALO's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of HALO, State, and SIGAR. 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.

Williams, Adley & Company, DC, LLP

Washington, D.C.
January 22, 2020

Schedule of Findings and Questioned Costs

Finding 2019-01: Unreasonable and Unsupported Payroll Allocation Method for Administrative Support Staff, Operations Management Employees, and International Employees

Nature of Finding: Material Weakness in Internal Control and Non-Compliance

Condition: For 7 of the 11 grants audited, HALO charged Administrative Support, Operational Management, and International employee wages using an allocation method that does not demonstrate how employee labor costs were identified with specific cost objectives and did not meet CFR criteria for the Documentation of Personnel Expenses 200.430 (i). HALO's administrative support employees support not only the State grants under audit, but also HALO's other programs in Afghanistan that are funded by other international donors. HALO stated that they budget total wages for such employees across their international funders on a proportional basis using country donor profiles, funding pools and HALO's determination of a funders use of a program's operational capacity. As an example, HALO states "a project representing 25% of a program's operational capacity would include a budget for approximately 25% of core support and management staff costs." Accordingly, HALO stated that they are charging the grants under audit a percentage of HALO's total costs for Administrative Support and Operational Management wages.

Documentation supporting identification of costs with specific cost objectives was inadequate. For the period September 1, 2015 through March 31, 2019, we examined 45 out of 29,787 records supporting \$19,401 in total payroll transactions from a total of \$8,931,477. Five of the records examined supported Administrative Support and Operational Management wages. The records supporting the costs charged in these categories tracked attendance but did not identify hours worked, grant, program, mine location, funding agency, or any other metric that might link these costs specifically to a grant or final cost objective. We did not test International employee's wages, as they are not individually identifiable to the grants. International employee's wages are charged to the grants using a flat monthly fee for salary and benefits.

In addition to the above, HALO's allocation method does not meet the CFR's Standards for Documentation of Personnel Expenses in the following ways:

- 1) HALO's internal controls did not provide reasonable assurance that the charges were accurate, and properly allocated.
 - a. HALO did not allocate wages consistently or in accordance with their stated methodology.
 - i. Of the five employees identified in our sample as Administrative or Operational Management, the allocation of each employee's wages was inconsistently applied. HALO did not provide documentation supporting the individual allocations or support the assertion that

- they allocate costs on a proportional basis, of each country program's operational capacity.
- b. The supporting documents provided to support the allocation of payroll to the grants did not support general ledger transaction costs charged to the grants and contained inaccuracies.
 - i. The allocation calendar given to support the five employees sampled indicated that wages from one of the employees sampled was allocated to grant S-PMWRA-16-GR-1053 for the months of January through March 2016. This grant started in August 2016 and allowed pre-award costs incurred after April 1, 2016. HALO did not provide support for this allocation, and they did not offer an explanation as to why these wages had been allocated to a grant that had not begun. While we were able to ascertain that the grant had not been charged for any costs prior to April 1, 2016, we were unable to confirm if this inaccurate allocation was reconciled or where the allocated amounts in the sample were eventually charged.
- 2) HALO's stated allocation method is not documented in their accounting procedures. The official policies do not specifically address HALO's allocation of personnel expenses nor do they document HALO's stated policy of allocating costs based on a programs operational capacity.
- 3) HALO's documentation does not support their distribution of wages. HALO has allocated costs in 7 of the 11 grants under audit. Five of the grant proposals did not state they would be allocating personnel costs. Two of the proposals stated HALO would be allocating certain categories of payroll, however, these two grant proposals did not:
- a. account for a combined use of funds based on performance-oriented metrics
 - b. note that HALO allocates costs to funding agencies based on a percentage of the funding agencies use of a program's organizational capacity.
 - c. did not request waivers that complied with CFR requirements.
 - d. relate the charging of costs to specific activities applicable to all fund sources based on quantifiable measures of the activity in relation to time charged.
support the distribution of the employee's wages among specific activities or cost objectives.
- 4) HALO's use of budget estimates did not provide assurance, nor were we able to verify that the estimates produced reasonable approximations of the activity actually performed as:
- a. HALO did not provide documentation that might give meaningful understanding to what was meant by organizational capacity, and more specifically what was included in the term program(s).
 - b. HALO did not provide quantifiable organizational capacity data or rationale for the US funded programs' use of a program's organizational capacity.

- c. HALO did not quantify the percent of organizational capacity used by each grant.
- d. there was no evidence that HALO subsequently reviewed and reconciled budget estimates against actual timekeeping documentation to determine allocability.

Based on the above, we are questioning the associated payroll costs charged to 7 of the 11 grants tested. The questioned costs total \$2,670,354 including indirect costs of \$217,363. See Table 3 below.

Table 3: Unsupported Payroll Costs

Unsupported Payroll Costs					
Grant Number	Allocated Int'l Staff	Allocated National Staff	Indirect Cost Amount	% of Direct Costs	Total Questioned Costs
S-PMWRA-15-GR-1060	\$131,200	\$572,409	\$70,361	10	\$773,970
S-PMWRA-15-GR-1061*	\$0	\$231,592	\$14,359	6.2	\$245,951
S-PMWRA-16-GR-1051	\$0	\$132,129	\$9,249	7	\$141,378
S-PMWRA-16-GR-1053 Base Year*	\$140,000	\$211,965	\$24,638	7	\$376,603
S-PMWRA-16-GR-1053 Option Year 1 +2*	\$252,000	\$436,328	\$68,833	10	\$757,161
S-PMWRA-16-GR-1054	\$0	\$153,763	\$10,763	7	\$164,526
S-PMWRA-17-GR-1051	\$20,000	\$55,570	\$7,557	10	\$83,127
S-PMWRA-17-GR-1056	\$0	\$116,035	\$11,604	10	\$127,639
Total	\$543,200	\$ 1,909,791	\$ 217,363		\$ 2,670,354

Criteria:

2 CFR § 200.403 - Factors affecting allowability of costs.

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

(g) Be adequately documented..."

2 CFR § 200.430 - Compensation - personal services.

“(a) *General.* Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in § 200.431 Compensation - fringe benefits. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities...

(i) *Standards for Documentation of Personnel Expenses –*

- (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- i. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;...

- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities;...

- (v) Comply with the established accounting policies and practices of the non-Federal entity;...

- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award;...

- (viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards...

- A. The system for establishing the estimates produces reasonable approximations of the activity actually performed;...

- C. The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal award based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated...

- (7) For Federal awards of similar purpose activity or instances of approved blended funding, a non-Federal entity may submit performance plans that incorporate funds from multiple Federal awards and account for their combined use based on performance-oriented metrics, provided that such plans are approved in advance by all involved Federal awarding agencies. In these instances, the non-Federal entity must submit a request for waiver of the requirements based on

documentation that describes the method of charging costs, relates the charging of costs to the specific activity that is applicable to all fund sources, and is based on quantifiable measures of the activity in relation to time charged.”

Cause: There are three reasons HALO uses its allocation methodology, even though it is not consistent with the CFR: 1) HALO noted that the data collection necessary to be CFR compliant is overly-burdensome 2) PMWRA grant officers have expressed support for the allocation methodology and 3) [REDACTED]

HALO stated they are using the allocation method because, in many cases, Administrative, Operational Management and International employees would be overburdened if they were required to record on time sheets the number of hours that should be allocated to each donor based on tasks performed. HALO also suggested that in many cases it is not possible to make a logical distinction between donor projects for support and management activities, which contribute to the program as a whole.

PMWRA grant officers have expressed support of the allocation methodology. In December of 2016, in response to a similar finding in SIGAR audit 16-25-FA, a grants officer granted HALO a waiver approving their allocation method, with the caveat that HALO include the allocation method in future proposals. Williams Adley noted that HALO’s inclusion of the allocation method in grant proposals, as required by the grant officer, was inconsistent, but, nevertheless, HALO continued to use the allocation method. It is important to note, however, that while the grants officer may have found rationale for approving the allocation method in the past, the methodology for grants under this audit does not meet CFR requirements.

HALO lacks adequate controls to ensure payroll is allocated consistently and supporting records are reliable.

HALO lacks accounting procedures that: clearly define the documentation necessary to support allocation of personnel expenses; ensure allocation methods are based on quantifiable performance-oriented metrics; require budgeted allocation estimates be reconciled against actual payroll documentation to determine allocability.

Effect: HALO’s use of this allocation method, and the lack of documentation supporting the method and individual allocations, increases the risk that State is overcharged, charged for services that were never rendered, or incorrectly charged for work not related to a grant.

Questioned Cost: \$2,670,354 comprised of \$543,200 related to international employees, \$1,909,791 related to national employees, and \$217,363 in associated indirect costs.

Recommendation: We recommend that HALO:

1. Provide payroll documentation that meets the CFR criteria for the Standards for Documentation of Personnel Expenses which supports the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award. Alternatively, we recommend HALO provide documentation supporting the use of an allocation methodology plan that is in compliance with CFR allocation of costs requirements. If HALO cannot provide the required documentation for the Administrative, Operational Management and International employees we recommend HALO refund to the State the total amount of \$2,670,354 (including the associated indirect cost amount of \$217,363).
2. Develop and implement procedures to ensure that any allocation method approved and implemented is not only in accordance with CFR requirements, but also institutes processes that mitigate overly burdensome aspects of the methodology. Once approved by pertinent awarding agencies, HALO should revise official policies and procedures to include the approved allocation method.

Finding 2019-02: Unsupported Variance Between General Ledger and Financial Report**Nature of Finding:** Material Weakness in Internal Control and Non-Compliance

Condition: We identified a variance between total disbursements per the general ledger (GL) and that reported on the SF-425 in field 10 (b). The SF-425 is a cumulative report, generated for State, that shows the financial status of the grant as of the report date. State reimbursed the amount of disbursements reported on the SF-425 to HALO USA as the recipient of the award. According to HALO USA's subaward agreement with HALO UK, HALO USA was not permitted to expend any of the grant funds directly but was required to pass through all funds to HALO UK. HALO UK stated that the SF-425 reports included costs incurred by HALO USA and HALO UK. As required by the subaward, HALO USA did pass all funds received to HALO UK, therefore, HALO UK should have accounted for all of the grant funds and related disbursements in its GL, including any amounts redirected to HALO USA for expenditure. However, the amount of costs incurred included in the HALO UK GL, which was used to generate the SPFS, did not reconcile with the amount of costs incurred as reported on the SF-425. The amount of disbursements (costs incurred) included on the SF-425 was overstated by \$134,280 when compared to the HALO UK GL and no details were provided to support the overstated amount.

The table below shows the difference between the SF-425 disbursements reported and the provided general ledger detail. The variance results in unsupported questioned costs of \$134,280.

Table 6: Variance between the GL and the SF-425

Grant Award	Disbursements per SF-425	Disbursements per GL	Variance
S-PMWRA-15-GR-1060	\$4,122,522	\$4,009,189	\$ 113,333
S-PMWRA-18-GR-1014	\$1,733,714	\$1,712,767	\$ 20,947
Total Variance of Disbursements Reported			\$ 134,280

Criteria:**2 CFR § 200-302 Financial Management states that**

- “(a)...Non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award...
- (b)(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program...

- (b)(4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes...”

2 CFR § 200.303 - Internal Controls.

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

Cause: HALO UK did not reconcile the general ledger used to prepare the SPFS with the submitted SF-425. HALO UK stated that the variance noted related to HALO USA costs incurred, but HALO UK did not explain why the \$134,280 was not included in the HALO UK general ledger used to prepare the SPFS. Further, HALO did not respond to our multiple requests to provide supporting documentation for the transactions comprising the \$134,280 in HALO USA costs incurred.

Effect: Without supporting documentation the \$134,280 in costs cannot be verified to determine their allowability and allocability to the grants.

Questioned Cost: \$134,280 in unsupported costs.

Recommendation: We recommend that HALO:

1. Implement procedures to ensure the accountability and accuracy of funds reported on the SF-425 as well as their agreement to disbursements recorded in the general ledger.
2. Provide State with documentation that clearly supports the allowability and allocability of the \$134,280 billed to S-PMWRA-18-GR-1014 and S-PMWRA-15-GR-1060 or reimburse State for that amount.

Status of Prior Audit Findings and Recommendations

We reviewed one prior audit report pertaining to HALOs activities in Afghanistan. The report contained nine findings and recommendations that could have a direct and material impact on the Special Purpose Financial Statement or other financial information significant to the audit objectives. We conducted follow-up procedures including discussions with management and performed testing of similar matters during our audit.

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

The report addresses expenditures charged to five Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State Bureau) grants between April 1, 2011 to March 31, 2015. During our testing, we reviewed the nine findings and recommendations identified in this prior audit report and determined that two of the nine findings were repeated, and corrective action was taken for the remaining seven.

See below summary of prior audit findings, corrective action taken and the current status:

Finding Number 1 – Material Weakness and Material Noncompliance – Unsupported and Ineligible Payroll Costs

Issue: HALO did not provide adequate support for how employees working multiple projects with multiple donors had their time allocated to the grants subject to the audit. As a result of the unsupported allocation methodology, Williams Adley questioned \$140,550 of payroll costs.

Status: HALO received an approved allocation methodology for grants identified in the prior audit, and State did not require that HALO refund the \$140,550 in payroll costs. However, the current audit revealed that HALO did not always adhere to the stipulation presented within the approval that HALO include the allocation method in each subsequent grant proposal as noted in Finding 2019-01. Also, HALO did not provide adequate documentation to support its allocation method, and we determined in Finding 2019-01 that the allocation method was not in compliance with 2 CFR 200. As a result, we determined that HALO did not take appropriate corrective action as the material weakness and noncompliance conditions are still present.

Finding number 2 – Significant Deficiency and Noncompliance – Ineligible Equipment Costs

Issue: HALO charged the full purchase price to a PM/WRA grant of a vehicle that had been purchased three (3) years prior to the grant being issued. Pre-award costs had not been approved for this grant. As a result of the ineligible cost, Williams Adley questioned \$41,290.

Status: HALO and State have discussed HALO's method of purchasing equipment in bulk for cost savings, stockpiling the equipment and charging equipment to grants at a later date. The Department has determined the method to be allowable. During our 2019 testing we did not identify any instances in which equipment was purchased in a different period and then charged to the grant. As a result, we determined that HALO took sufficient corrective action.

Finding number 3 – Significant Deficiency and Noncompliance – Unsupported Supply Costs

Issue: HALO did not provide documentation to support disbursement transactions, resulting in Williams Adley being unable to confirm payment for these goods and services. Additional issues included in this finding were HALO not obtaining quotations as required and incomplete sole source justification. Williams Adley questioned a total of \$20,354 costs.

Status: When testing disbursement transaction for the current audit period, we did not identify any instances where HALO did not obtain quotations or did not provide complete sole source justifications. As a result, we determined that HALO took corrective action.

Finding number 4 – Internal Control Deficiency and Noncompliance – Ineligible Costs Charged to Supplies

Issue: HALO did not properly withhold taxes on various supply purchases that were charged to the grant. Consequently, \$7,473 in supply costs were questioned.

Status: HALO was able to provide documentation to PM/WRA after the 2015 audit to support that withholdings for these transactions was performed accurately. The results of testing during this audit did not identify any issues in which HALO was paying gross amounts to vendors or paying withholding tax to the Government of Afghanistan. As a result, we determined that HALO took corrective action.

Finding number 5 – Internal Control Deficiency and Noncompliance – Budget Line-Item Overage

Issue: HALO exceeded the 10 percent budget adjustment threshold without pre-approval from PM/WRA, resulting in questioned costs of \$15,108.

Status: Since the 2015 audit, HALO has gained a better understanding of what qualifies as needing pre-approval from State. While we did not identify any grants that exceeded the 10 percent threshold, we also did not observe effective controls in place to monitor and sufficiently plan to try to avoid such a significant amount of cost transfers, particularly at the end of projects. However, this concern in the control environment does not sufficiently warrant keeping the finding open. As a result, we determined that HALO took corrective action.

Finding number 6 – Noncompliance – Inventory Controls

Issue: Williams Adley found that HALO did not adequately label their equipment with identifying information. It was also noted that HALO was not performing reconciliations between equipment costs posted to the general ledger to physical inventory records. Finally, HALO had not purchased insurance for the equipment purchased with State funds, as required.

Status: After the 2015 audit HALO explained to PM/WRA that the equipment insurance cost did not make fiscal sense and that they were self-insuring the equipment. PM/WRA accepted this. HALO updates the general ledger when any deviations are found during physical inventory checks. Williams Adley identified no control issues surrounding inventory. As a result, we determined that HALO took corrective action.

Finding number 7 – Noncompliance – Financial Reporting

Issue: Williams Adley observed differences between the actual disbursements reported on the general ledgers we were provided and the SF-425 financial reporting form, totaling \$11,278.58. HALO attempted to submit a corrected report, but it was not completed until the following period.

Status: We also observed a variance between the disbursements reported on the general ledgers we were provided and the SF-425 financial reporting form, as discussed in Finding 2019-02. As a result, we determined HALO has not taken adequate corrective action with respect to this issue.

Finding number 8 – Noncompliance – Debarment and Suspension Common Rule

Issue: HALO neither obtained certifications from nor verified the status for one contractor regarding debarment, suspension, ineligibility and voluntary exclusion from Federal awards.

Status: During our testing we found one instance of lack of documentation related to HALO verifying the status of a contractor. This will be included in the management letter. Because we identified only one instance during the current audit and the issue identified in 2019 related to control procedures, we determined that HALO has taken satisfactory corrective action.

Finding number 9 – Noncompliance – No Withholding Tax

Issue: HALO did not deduct taxes from suppliers and for rent for 24 sampled transactions, however the auditors did see notations where the suppliers and landlord agreed to pay the taxes owed. This was not in line with Afghan tax laws.

Status: We noted no instances during our audit.

Summary of Finding Status:

Finding	Description	Comment
2016-01	Unsupported and Ineligible Payroll Costs	See Finding 2019-01
2016-02	Ineligible Equipment Costs	We noted no instances during our audit
2016-03	Unsupported Supply Costs	We noted no instances during our audit
2016-04	Ineligible Costs Charged to Supplies	We noted no instances during our audit
2016-05	Budget Line-Item Overage	We noted no instances during our audit
2016-06	Inventory Controls	We noted no instances during our audit
2016-07	Financial Reporting	See Finding 2019-02
2016-08	Debarment and Suspension Common Rule	We noted no instances during our audit
2016-09	No Withholding Tax	We noted no instances during our audit

Appendix A – Management's Response to the Findings and Recommendations



To: Jocelyn Hill, CPA, CGFM, Partner
Williams Adley

June 19 2020

Thank you for the opportunity to provide management comments in respect of the draft SIGAR audit. The HALO Trust does not agree with the basis presented for a qualified audit opinion, particularly in respect of a failure to follow the code of federal regulations.

I set out in the paragraphs below that costs attributed to PM/WRA grants identified in this audit are reasonable (CFR202.404), allocable (CFR202.405) and in accordance with CFR202.430, CFR202.431.

Paragraphs are numbered sequentially in order to simplify the cross referencing of our representations and to aid further discussions in this regard. For reference, The HALO Trust (USA), Inc is referred to as 'HALO USA' and The HALO Trust is referred to as 'HALO UK'.

Management's Response to the Findings and Recommendations

Finding 2019 –01 Unreasonable and Unsupported Payroll Allocation Method for Administrative Support Staff, Operations Management Employees, and International Employees

1. Summary Management Response:

- 1.1 HALO strongly refutes the assertion that its accounting systems do not support the controls, policies and procedures necessary to be compliant with CFR requirements.**
- 1.2 HALO does not concur with the assertion that its allocation methodology (when budgeting or charging support costs) is not consistent with CFR.**
- 1.3 HALO clearly demonstrates that PM/WRA has not been over charged for support staff across the portfolio of grants under audit and that there should be no questioned costs.**
- 1.4 HALO clearly demonstrates that it fully reconciles general ledgers for both HALO USA and HALO UK to the grant awards.**

The following paragraphs provide HALO's rationale that costs were reasonable (CFR202.404), allocable (CFR202.405) and in accordance with (CFR200.430, 200.431), contrary to that outlined in the audit report.

2. HALO in Afghanistan

HALO operates at huge scale in Afghanistan. Staff numbers as reported in the financial statements of The HALO Trust increased steadily in the country from 2,400 in FY14/15, to 3,850 in FY18/19. Activities undertaken across Afghanistan are broadly similar, with teams working to clear explosive hazards and weapons from task sites.

During the audit, the HALO team shared the organigram for HALO Afghanistan, explaining how the structure operates and provides appropriate organizational capacity to enable the programme to function effectively and efficiently. A number of proposals for PM/WRA funding were also shared which linked back to the organigram at the time of proposal.

The HALO Trust is a company limited by guarantee
Registered in England No. 2228587 Registered Charity No. 1003813 & SC037870 Registered Office: 50 Broadway, London SW1H 0BL

3. All staff costs

All staff are recruited in accordance with HALO's SOP's, in accordance with local practice (UK and Afghanistan) and details for each staff member, including recruitment and employment service together with employment contracts are held on a central Human Resource database in Afghanistan, mirrored in the UK for international staff.

Staff sign in and out each day in HALO Afghanistan offices, whilst in field locations, attendance sheets are completed for all team staff. At the end of each day in the field, operational statistics are completed and reconciled. Staff are paid via bank transfer and in accordance with locally authorized attendance documentation as described above. While the grant and funding agency are not annotated on attendance records this is annotated within the payroll system for each employee, with direct delivery teams allocated in accordance with the team to donor matrix, which aligns to donor budgets.

4. Direct staff costs

HALO's mine action teams are deployed on minefields which are funded by specific donors. The staff costs associated with the delivery of activities are direct charged to the grant funding the activity, with cost allocations driven by the team to donor matrix. HALO does not apply to donors to part fund direct delivery teams. There is clearly proportionality in respect of the charging of direct staff costs to grants, as they are working solely and exclusively on minefields for which the grant is being provided. There are no questioned costs in respect of direct staff costs.

5. Other national (support) staff costs

Support staff structures are designed to provide centralized management and administrative support to direct delivery teams. Support staff working centrally, who cannot be directly attributed to either a donor, or work stream (e.g. Mine Action, Weapons Ammunition Management (WAM)) are not linked directly to a grant, program, mine location, funding agency or any other metric because they are in place to support a holistic program, funded by multiple donors across multiple locations. Support staff at this scale are therefore budgeted and charged on a proportionate basis across the pool of donors funding activities. The starting point for which must be the donor approved budget (CFR200.430), which is prepared taking proportionality into consideration together with any anticipated, material shifts in scale across the program during the life of the grant.

Any material shift described above (CFR200.430) in the scale of HALO's program in Afghanistan would result in an immediate review of support staff structures which would in turn impact on the values charged to grants. HALO does not carry support staff in Afghanistan who are not required due to the scale of activities.

For support staff working in specific locations, if the location is 100% funded by a particular donor, then 100% of the support staffs costs will be charged to that donor. If the location is funded across multiple donors, then the charge will be proportional across donors funding the specific location. The same methodology applies for staff working on specific work streams (e.g. an Operational manager of mine action sections would not be allocated proportionally to a WAM contract).

6. International staff costs

International staff structures are designed to provide effective, efficient management and administrative support to direct delivery teams, with support staff numbers proportional to the scale of operations across HALO Afghanistan, whilst also considering areas such as security management, donor/grant management and country oversight. International staff are budgeted and charged proportionally to grants in the same way as national support staff.

7. Charging actual support costs during the grant period

HALO's approach to charging support costs to grants is consistent and ensures that donors receive a fair and proportionate charge in accordance with what they have agreed to fund in the program across the lifetime of the grant. On a monthly basis, HALO processes support staff charges, including international staff, to grants in accordance with the approved budgets but also takes into consideration the fact that during the grant period, donors will come online and drop off and therefore ensures that during their time funding projects, donors receive a fair and proportionate level of support staff charges, whilst also taking into consideration those donors who are content to receive higher value support staff charges in order to support the overall costs of the program.

For all support staff, the HALO Afghanistan 'staff allocation tool' is used, this links to approved budgets and donor profiles and is the basis on which charges are allocated to grants. The matrix is reviewed monthly and ties in with the monthly grant performance review which includes Budget v Actual data (for operational performance, staff numbers and expenditure), together with grant forecasts and spend out plans on a grant by grant, cost line by cost line basis.

Details of the process undertaken by HALO Afghanistan to allocate support staff are shown in Annex A. Please note, due to the complexity of this model, the number of staff, staff positions, locations, work streams, donors etc. HALO would be pleased to discuss the model in detail as required.

8. Process Waiver

HALO does not concur with the assertion that its allocation methodology is not consistent with the CFR (para 2, page 23 refers).

HALO identified that due to the large scale of activities, funded by multiple donors, that it was neither practical nor sensible to attempt to timesheet international or national management and support staff costs to grants. This is not contrary to CFR200. HALO support staff are supporting a multitude of grants by delivering holistic, programmatic work which impacts positively across all grants and so a reasonable, proportional methodology is required in order to ensure that donors receive a fair and reasonable support cost charge to their grants. All staff in HALO Afghanistan complete attendance sheets which logs days worked, authorized by supervisors and these sheets form a part of the monthly payroll process.

Whilst HALO pointed out in requesting the waiver from PM/WRA that time sheeting of staff as the basis of charging support staff was overly burdensome, it is a practical fact that producing timesheets for such staff could only mirror allocations across multiple grants which are designed to ensure proportionality across all donors in a programme, rendering such timesheets nothing more than post allocation calculation confirmation that a charge to a grant is to be made.

9. Demonstrating actual proportionality for the grants audited

All costs that cannot be directly attributed to grants, in this case administrative support, operational management and international staff central support costs are budgeted proportionally to grants, subject to income from other donors that HALO may leverage in the programme. When budgets are prepared, HALO will consider the forecast grant portfolio for the coming period(s), adjust for any other income that can be leveraged against support costs and produce a budget for approval by PMWRA. PMWRA are a long standing, trusted and highly valued donor of HALO in Afghanistan and where possible HALO keeps support costs to a minimum in order to maximize project activities. The tables below clearly demonstrate that, on the basis of programme income, which is clearly the most appropriate basis for the charging of support costs, PMWRA has not been charged more than a proportional share of support costs across grants.

10. STEP 1: Demonstrate PMWRA Grant Income proportions against other donors

The table below considers the value of grants under audit set against other donor funding for Afghanistan, with the data also shown as a grant by grant % of total income.

Donor / Grant Number	Income by Financial Year in USD					Income by Financial Year as a %				
	1 April 15 - 31 March 16	1 April 16 - 31 March 17	1 April 17 - 31 March 18	1 April 18 - 31 March 19	Reconciliation to SPFS	1 April 15 - 31 March 16	1 April 16 - 31 March 17	1 April 17 - 31 March 18	1 April 18 - 31 March 19	
PMWRA-15-GR-1060	919,629	1,065,230	912,333	1,111,997	4,009,189	5.6%	6.7%	4.5%	4.9%	
PMWRA-15-GR-1061	1,362,177	1,123,292			2,485,469	8.3%	7.0%			
PMWRA-16-GR-1051		969,551	636,981		1,606,532		6.1%	3.1%		
PMWRA-16-GR-1053		1,236,207	1,250,000	1,250,000	3,736,207		7.7%	6.1%	5.5%	
PMWRA-16-GR-1054		767,057	948,210		1,715,267		4.8%	4.6%		
PMWRA-17-GR-1010		185,760	1,113,490		1,299,250		1.2%	5.4%		
PMWRA-17-GR-1051			87,750	177,250	265,000			0.4%	0.8%	
PMWRA-17-GR-1056			525,614	474,386	1,000,000			2.6%	2.1%	
PMWRA-18-GR-1012				1,399,019	1,399,019				6.1%	
PMWRA-18-GR-1014				1,712,767	1,712,767				7.5%	
PMWRA-18-GR-1016				1,535,000	1,535,000				6.7%	
Other grant income	14,118,601	10,650,827	14,981,783	15,226,767		86.1%	66.6%	73.2%	66.5%	
Total	16,400,407	15,997,924	20,456,161	22,887,186	20,763,700	100%	100%	100%	100%	

11. STEP 2: Working Paper – Proportionality % as above versus Actual % support costs charged

The table below highlights the % of PMWRA grant income in the year, set against the actual % of support staff costs charged.

Donor / Grant Number	1 April 15 - 31 March 2016			1 April 2016 - 31 March 2017			1 April 2017 - 31 March 2018			1 April 2018 - 31 March 2019		
	% of Income in Year	% of Support costs allocated	Difference	% of Income in Year	% of Support costs allocated	Difference	% of Income in Year	% of Support costs allocated	Difference	% of Income in Year	% of Support costs allocated	Difference
PMWRA-15-GR-1060	5.6%	4.8%	(0.8%)	6.7%	5.6%	(1.1%)	4.5%	6.2%	1.7%	4.9%	3.8%	(1.0%)
PMWRA-15-GR-1061	8.3%	5.0%	(3.3%)	7.0%	4.2%	(2.8%)						
PMWRA-16-GR-1051				6.1%	2.4%	(3.6%)	3.1%	3.3%	0.1%			
PMWRA-16-GR-1053				7.7%	8.6%	0.9%	6.1%	6.2%	0.2%	5.5%	7.7%	2.2%
PMWRA-16-GR-1054				4.8%	2.1%	(2.6%)	4.6%	3.4%	(1.3%)			
PMWRA-17-GR-1010				1.2%	0.2%	(1.0%)	5.4%	2.1%	(3.3%)			
PMWRA-17-GR-1051							0.4%	0.8%	0.0%	0.8%	0.9%	0.1%
PMWRA-17-GR-1056							2.6%	0.7%	(1.9%)	2.1%	2.9%	0.8%
PMWRA-18-GR-1012										6.1%	2.7%	(3.4%)
PMWRA-18-GR-1014										7.5%	3.7%	(3.8%)
PMWRA-18-GR-1016										6.7%	3.7%	(3.0%)
Other grant income	86.1%	90.3%	4.2%	66.6%	76.7%	10.1%	73.2%	77.4%	4.4%	66.5%	74.5%	8.0%
Total	100.0%	100.0%	0.0%	100.0%	100.0%	(0.0%)	100.0%	100.0%	0.0%	100.0%	100.0%	0.0%

12. STEP 3: Actual costs charged versus charge based on proportional income basis:

The table below converts the percentages shown in the table above to actual values, showing support staff costs actually charged to PMWRA grants, versus what would have been charged using actual % income as the basis for the charge. Taken across all grants, for all years, HALO has charged \$774,861 less than it may have done using proportionality across all grants. This difference has been picked up by other donors within the portfolio. Such donors will see their respective funding as part of an overall package of funding which maximizes all available resources, leveraging all donor funding (whilst not part of formal cost share agreements).

Note re WAM projects:

During the audited period, Grants 15-GR-1060 and 16-GR-1053 make up from 70% to 100% of HALO's WAM (Weapons and Ammunition Management) Division. As illustrated in the HALO Afghanistan Organigram, this operational work stream contains its own dedicated Operations Management Staff. While the support staff remain for the most part shared with traditional mine clearance projects, there are increased demands due to weekly reporting of activities to PMWRA, weekly bulk demolitions across multiple locations, and additional resources required to respond to daily callouts for suspected hazardous items across Afghanistan. The WAM Division, consisting of 20 - 30 teams, does not quite achieve the same economy of scale as the Mine Clearance Division (over 80 - 110 teams). For this reason the percentage charged to both grants on some occasions is higher than the percentage of income methodology.

Note: Audit difference

We are unable to reconcile the figures provided by Williams Adley for grant PMWRA-16GR-1051. A difference of \$24,974 is annotated on the table below.

Donor / Grant Number	Support Staff Charged	Chargeable value using % of income ratio	Under / (over) charge	Support Staff Charged	Chargeable value using % of income ratio	Under / (over) charge	Support Staff Charged	Chargeable value using % of income ratio	Under / (over) charge	Support Staff Charged	Chargeable value using % of income ratio	Under / (over) charge	Total Charged	Total based on income	Under / (over) charge	Total per Table 3:	Variance:
	1 April 15 - 31 March 2016			1 April 2016 - 31 March 2017			1 April 2017 - 31 March 2018			1 April 2018 - 31 March 2019			A	B	B-A	C	A-C
PMWRA-15-GR-1060	123,050	144,078	21,028	137,730	163,586	23,365	183,146	132,452	(50,499)	128,483	160,130	34,180	572,409	600,246	27,837	572,409	-
PMWRA-15-GR-1061	127,392	213,413	86,021	104,200	172,502	63,266	-	-	-	-	-	-	231,592	385,915	154,323	231,592	-
PMWRA-16-GR-1051	-	-	-	60,182	148,892	86,443	96,821	92,477	(4,208)	-	-	-	157,003	241,369	84,366	132,129	24,874
PMWRA-16-GR-1053	-	-	-	211,819	189,842	14,955	183,852	181,475	(2,088)	252,623	180,002	(72,877)	648,293	551,320	(96,973)	648,293	-
PMWRA-16-GR-1054	-	-	-	52,766	117,796	63,236	100,997	137,661	37,482	-	-	-	153,763	255,457	101,694	153,763	-
PMWRA-17-GR-1010	-	-	-	5,163	28,527	22,930	62,634	161,656	99,260	-	-	-	67,797	190,183	122,386	-	-
PMWRA-17-GR-1051	-	-	-	-	-	-	24,152	12,740	(1,222)	31,418	25,524	(4,196)	55,570	38,264	(17,306)	55,570	-
PMWRA-17-GR-1056	-	-	-	-	-	-	19,921	76,309	56,500	96,114	68,313	(27,707)	116,035	144,621	28,586	116,035	-
PMWRA-18-GR-1012	-	-	-	-	-	-	-	-	-	89,270	201,461	111,905	89,270	201,461	112,191	-	-
PMWRA-18-GR-1014	-	-	-	-	-	-	-	-	-	121,575	246,642	124,716	121,575	246,642	125,067	-	-
PMWRA-18-GR-1016	-	-	-	-	-	-	-	-	-	123,357	221,043	97,372	123,357	221,043	97,686	-	-
Other grant income	2,319,013	2,211,964	-	1,884,019	1,635,632	-	2,298,300	2,175,054	-	2,452,959	2,192,684	-	8,955,190	8,215,333	-	-	-
Total	2,569,455	2,569,455	107,049	2,456,777	2,456,777	274,194	2,969,823	2,969,823	130,225	3,295,799	3,295,799	263,393	11,291,854	11,291,854	739,857		
Total savings to PMWRA			107,049			274,194			130,225			263,393			739,857	1,909,791	24,874

Finding 2019 – 02 Unsupported Variance between General Ledger and Financial Report

HALO will demonstrate in the four steps below that there are no unsupported variances between the general ledger and the SF425 financial report.

13. Step 1: Clarification of Sub-award model

The grants awarded to HALO USA under this audit commenced in September 2015, before an agreement was reached with PMWRA for HALO UK to expend the funds in Afghanistan. Below is clarification of the sub-award model and a table which clearly lays out which elements of each grant were expended by which entity.

14. Pass through Entity

HALO USA, as prime grantee became a pass through entity (CFR 200.74), with grant implementation now carried out by HALO UK as sub-recipient (CFR 200.93), via sub-awards (CFR200.92) provided by the Prime Grantee, under a professional services agreement which includes all of the relevant information disclosures discussed in Requirements for pass through entities (CFR 200.331). HALO UK has provided all such agreements to Williams Adley within the scope of this audit.

Under this arrangement, HALO USA carries out all of the required sub-recipient monitoring requirements identified in (CFR200.331). The first sub awards commenced in September 2016 and as each option year was awarded the grant transited to the revised model. Therefore the grants which commenced before this date were directly implement by HALO USA.

The table below is a revised Table 1 from the draft audit report which identifies the federal awards granted to HALO USA, together with the grants which were then sub-awarded to HALO UK.

In summary of the 11 awards under this audit an element of all 11 is sub-granted to HALO UK, by HALO USA, but all federal funds are granted to HALO USA as prime grantee.

Award	Issue Date	Period of Performance	Award Amounts	Cost Centre	Awarded to	Sub awarded for HALO UK to deliver
15-1060	01/09/2015	02/09/2015 - 30/04/2016	\$694,688	231	HALO USA	No
amendment 1	11/01/2016	02/09/2015 - 30/04/2016	\$300,000	231	HALO USA	No
amendment 2	26/07/2016	02/09/2015 - 30/04/2017	\$1,000,000	234	HALO USA	No
amendment 3	02/03/2017	02/09/2015 - 30/04/2017	\$1,000,000	234	HALO USA	No
amendment 4	10/03/2017	02/09/2015 - 30/04/2017	(\$1,000,000)	234	HALO USA	No
amendment 5	10/05/2017	02/09/2015 - 30/04/2018	\$1,000,000	EM7	HALO USA	Yes
amendment 6	22/06/2018	02/09/2015 - 30/04/2019	\$1,000,000	EQ1	HALO USA	Yes
amendment 7	31/08/2018	02/09/2015 - 30/04/2019	\$127,834	EQ1	HALO USA	Yes
amendment 8	23/04/2019	02/09/2015 - 30/04/2020	\$1,000,000	EV5	HALO USA	Yes
Subtotal			\$5,122,522			
15-1061	31/08/2015	01/09/2015 - 31/08/2016	\$2,486,019	232	HALO USA	No
Subtotal			\$2,486,019			
16-1051	10/08/2016	01/10/2016 - 30/09/2017	\$1,606,532	EL1	HALO USA	Yes
Subtotal			\$1,606,532			
16-1053	10/08/2016	11/08/2016 - 31/03/2017	\$1,250,000	233	HALO USA	No
amendment 1	16/03/2017	11/08/2016 - 31/03/2017	\$1,250,000	233	HALO USA	No
amendment 2	24/03/2017	11/08/2016 - 31/03/2017	(\$1,250,000)	233	HALO USA	No
amendment 3	28/04/2017	11/08/2016 - 31/03/2018	\$1,250,000	EM6	HALO USA	Yes
amendment 4	10/05/2018	11/08/2016 - 31/03/2019	\$1,250,000	EP5	HALO USA	Yes
Subtotal			\$3,750,000			
16-1054	10/08/2016	01/10/2016 - 30/09/2017	\$1,715,267	EL2	HALO USA	Yes
Subtotal			\$1,715,267			
17-1010	01/02/2017	02/02/2017 - 30/09/2017	\$1,299,250	EL3	HALO USA	Yes
Subtotal			\$1,299,250			
17-1051	19/09/2017	01/10/2017 - 30/09/2018	\$265,000	EN2	HALO USA	Yes
Subtotal			\$265,000			
17-1056	19/09/2017	21/09/2017 - 20/09/2018	\$1,000,000	EN1	HALO USA	Yes
Subtotal			\$1,000,000			
18-0012	10/05/2018	10/05/2018 - 31/03/2019	\$1,400,000	EP8	HALO USA	Yes
Subtotal			\$1,400,000			
18-0014	19/09/2017	10/05/2018 - 31/03/2019	\$2,115,000	EP7	HALO USA	Yes
amendment 1	26/02/2019	10/05/2018 - 31/03/2019	\$0	EP7	HALO USA	Yes
amendment 2	08/05/2019	10/05/2018 - 31/03/2019	\$0	EP7	HALO USA	Yes
Subtotal			\$2,115,000			
18-0016	28/03/2018	01/04/2018 - 31/03/2019	\$1,535,000	EP6	HALO USA	Yes
Subtotal			\$1,535,000			
Total			\$22,294,590			

15. Step 2: Clarification of the SF425 preparation

It is HALO USA's responsibility, as prime grantee to submit the SF425 using its general ledger revenues and expenditures transactions. It is not therefore HALO UK's responsibility to account for **all** grant funds and related disbursements in its General Ledger.

16. Step 3: Reconciliation of the Special Purpose Financial Statement (SPFS) and SF425

The SPFS was prepared and presented to Williams Adley as a cumulative value of directly incurred expenditures to deliver the project by budget line items for both HALO UK and HALO USA.

HALO acknowledges that the SPFS should have been presented reflecting solely the US General Ledger, due to HALO USA being prime grant recipient. This method of presentation would have identified the US directly expensed transactions and the value of disbursements to the UK entity (highlighted in red on the table below) in a single item line. In addition to this, the SPFS would have reconciled to the SF425 eliminating the unreconciled items.

17. The table below is a revised SPFS reflecting solely the HALO USA General Ledger to 31 March 2019:

The HALO Trust
Consolidated Special Purpose Financial Statement
For the Period September 1, 2015 to March 31, 2019

	Value of Award	TOTAL Actual
Revenues		
S-PMWRA-15-GR-1060	5,122,522	4,112,693
S-PMWRA-15-GR-1061	2,486,019	2,486,019
S-PMWRA-16-GR-1051	1,606,532	1,606,532
S-PMWRA-16-GR-1053	3,750,000	3,736,207
S-PMWRA-16-GR-1054	1,715,267	1,715,267
S-PMWRA-17-GR-1010	1,299,250	1,299,250
S-PMWRA-17-GR-1051	265,000	265,000
S-PMWRA-17-GR-1056	1,000,000	1,000,000
S-PMWRA-18-GR-0012	1,400,000	1,400,000
S-PMWRA-18-GR-0014	2,115,000	1,733,714
S-PMWRA-18-GR-0016	1,535,000	1,535,000
Total Revenue	22,294,590	20,889,682
Personnel	3,249,307	3,249,307
Fringe Benefits	17,677	17,677
Travel	60,142	60,142
Equipment	31,371	31,371
Supplies	1,974,920	1,974,920
Contractual	-	-
Construction	-	-
Other	25,052	25,052
Sub recipient disbursements	15,182,597	15,182,597
Total Direct Charges	20,541,066	20,541,066
Indirect Costs (NICRA)	347,803	347,803
TOTAL Cost	20,888,869	20,889,140

18. This can be reconciled back to the HALO USA General Ledger by grant number as detailed in the long format below:

The HALO Trust
Consolidated Special Purpose Financial Statement
For the Period September 1, 2015 to March, 2019

Revenues	Value of Award	ACTUAL Revenues and Expenditures											TOTAL Actual
		S-PMWRA-15-GR-1060	S-PMWRA-15-GR-1061	S-PMWRA-16-GR-1051	S-PMWRA-16-GR-1053	S-PMWRA-16-GR-1054	S-PMWRA-17-GR-1010	S-PMWRA-17-GR-1051	S-PMWRA-17-GR-1056	S-PMWRA-18-GR-0012	S-PMWRA-18-GR-0014	S-PMWRA-18-GR-0016	
S-PMWRA-15-GR-1060	5,122,522	4,112,693											4,112,693
S-PMWRA-15-GR-1061	2,486,019		2,486,019										2,486,019
S-PMWRA-16-GR-1051	1,606,532			1,606,532									1,606,532
S-PMWRA-16-GR-1053	3,736,207				3,736,207								3,736,207
S-PMWRA-16-GR-1054	1,715,267					1,715,267							1,715,267
S-PMWRA-17-GR-1010	1,299,250						1,299,250						1,299,250
S-PMWRA-17-GR-1051	265,000							265,000					265,000
S-PMWRA-17-GR-1056	1,000,000								1,000,000				1,000,000
S-PMWRA-18-GR-0012	1,400,000									1,400,000			1,400,000
S-PMWRA-18-GR-0014	2,115,000										1,733,714		1,733,714
S-PMWRA-18-GR-0016	1,535,000											1,535,000	1,535,000
Total Revenue	22,294,590	4,112,693	2,486,019	1,606,532	3,736,207	1,715,267	1,299,250	265,000	1,000,000	1,400,000	1,733,714	1,535,000	20,889,682
Personnel	3,249,307	1,000,965	1,571,260		677,082								3,249,307
Fringe Benefits	17,677	17,677	-										17,677
Travel	60,142	26,230	11,959		21,954								60,142
Equipment	31,371	10,236	-		21,135								31,371
Supplies	1,974,920	781,852	757,701		435,367								1,974,920
Contractual	-	-	-		-								-
Construction	-	-	-		-								-
Other	25,052	25,052	-		-								25,052
Sub recipient disbursements	15,182,597	2,127,834	-	1,606,532	2,500,000	1,715,267	1,299,250	265,000	1,000,000	1,400,000	1,733,714	1,535,000	15,182,597
Total Direct Charges	20,541,066	3,989,846	2,340,920	1,606,532	3,655,538	1,715,267	1,299,250	265,000	1,000,000	1,400,000	1,733,714	1,535,000	20,541,066
Indirect Costs (NICRA)	347,803	122,848	144,549		80,678								347,803
TOTAL Cost	20,888,869	4,112,693	2,485,469	1,606,532	3,736,215	1,715,267	1,299,250	265,000	1,000,000	1,400,000	1,733,714	1,535,000	20,889,140

19. Step 4: Reconcile the variance between the General Ledger and SF425 stated in Table 6 of the audit report:

Grant Award	Disbursements per SF-425	Disbursements per GL	Variance
S-PMWRA-15-GR-1060	\$4,122,522	\$4,009,189	\$ 113,333
S-PMWRA-18-GR-1014	\$1,733,714	\$1,712,767	\$ 20,947
Total Variance of Disbursements Reported			\$ 134,280

20. SPMWRA 15-GR-1060

Disbursements per the SF425 at 31 March 19 were reported as **\$4,122,522**. This value has an incorrect carried forward item of \$9,828 due to a liability being cancelled from the 2016/17 grant period and should read **\$4,112,693**. HALO has had problems amending this SF425 to take into account the accounting adjustment. Consequently in the quarter ending 30 June 2019 the SF425 was submitted reflecting the

correct position. The SF425 reports that HALO USA has received revenue of \$4,112,693, clearly demonstrating that there are no funds to be refunded to PMWRA.

Please note that these disbursements are directly incurred expenditures of **\$1,984,859** by HALO USA (these occurred before the sub award model was implemented), and **\$2,127,834** of funds then disbursed under sub award to HALO UK. (**\$1,984,859+\$2,127,834=\$4,112,693**).

The disbursements per the GL are **\$1,984,859** from the US GL for the directly incurred expenditures and from the UK GL a value of **\$2,024,330** for the directly incurred expenditures. (**\$1,984,859+\$2,024,330=\$4,009,189**).

The variance between the SF425 disbursements (**\$4,122,522**) and disbursements per the GL (**\$4,009,189**) is reconciled in the table below:

Disbursements per SF425	4,122,522
Cancelled liability in 2016/17	(9,828)
Funds remitted to UK which have not been expended through the UK GL at 31 March 19	(103,505)
Disbursements per the GL	4,009,189

Please note that the above information has already been shared with the audit team on 5 March 2020, along with a telephone call on 6 March 2020, but has not been reflected in the report.

The \$103,505 shown above was expended post 31 March 2019 in accordance with the grant terms and conditions, information previously shared with the audit team.

21. SPMWRA 18-GR-1014 (please note the correct grant award number is 18-GR-0014)

The total disbursements per the SF425 at 31 March 19 were \$1,733,714 and represent the value of funds disbursed as sub-award from HALO USA to HALO UK. The disbursements per the General Ledger of HALO UK (\$1,712,767) were for the directly incurred expenditures by HALO UK.

The variance between the SF425 disbursements (**\$1,733,714**) and disbursements per the GL (**\$1,712,767**) is reconciled in the table below:

Disbursements per SF 425	1,733,714
Funds remitted to UK which have not been expended through the UK GL at 31 March 19	(20,947)
Disbursements per the GL	1,712,767

The \$20,947 shown above was expended post 31 March 2019 in accordance with the grant terms and conditions, information previously shared with the audit team.

HALO can therefore clearly demonstrate that its financial management systems and internal controls reconcile the General Ledger for both HALO USA and HALO UK to the grant awards.

22. HALO Corrective Action Plans

Taking into consideration the findings within this report, HALO proposes to take the following corrective action in order to further improve systems and approaches in the delivery of PMWRA grants:

23. Finding 2019-01

- a) Given the complexity of allocating support staff across multiple donors with the added dimensions of location and work stream, HALO will develop a cost allocation system which can clearly demonstrate:
 - The source transaction (e.g. payroll)
 - The rationale (basis) for the allocation
 - The allocation charged
 - A periodic (no less than quarterly) review of proportionality across donors
- b) Convert the HALO Afghanistan working practice of allocating support costs to donors into a formal, documented SOP, which can be both internally and externally audited (whilst developing automated systems per 1. Above).

24. Finding 2019-02

- a) HALO has already implemented a formal, general ledger reconciliation between the HALO USA SF425, and the HALO UK general ledger transactions.
- b) For future SPFS reports, during the preparation process HALO will present the consolidated US general ledger only, with the audit team then being able to determine what testing it can do to meet audit objectives for the sub recipient reporting.

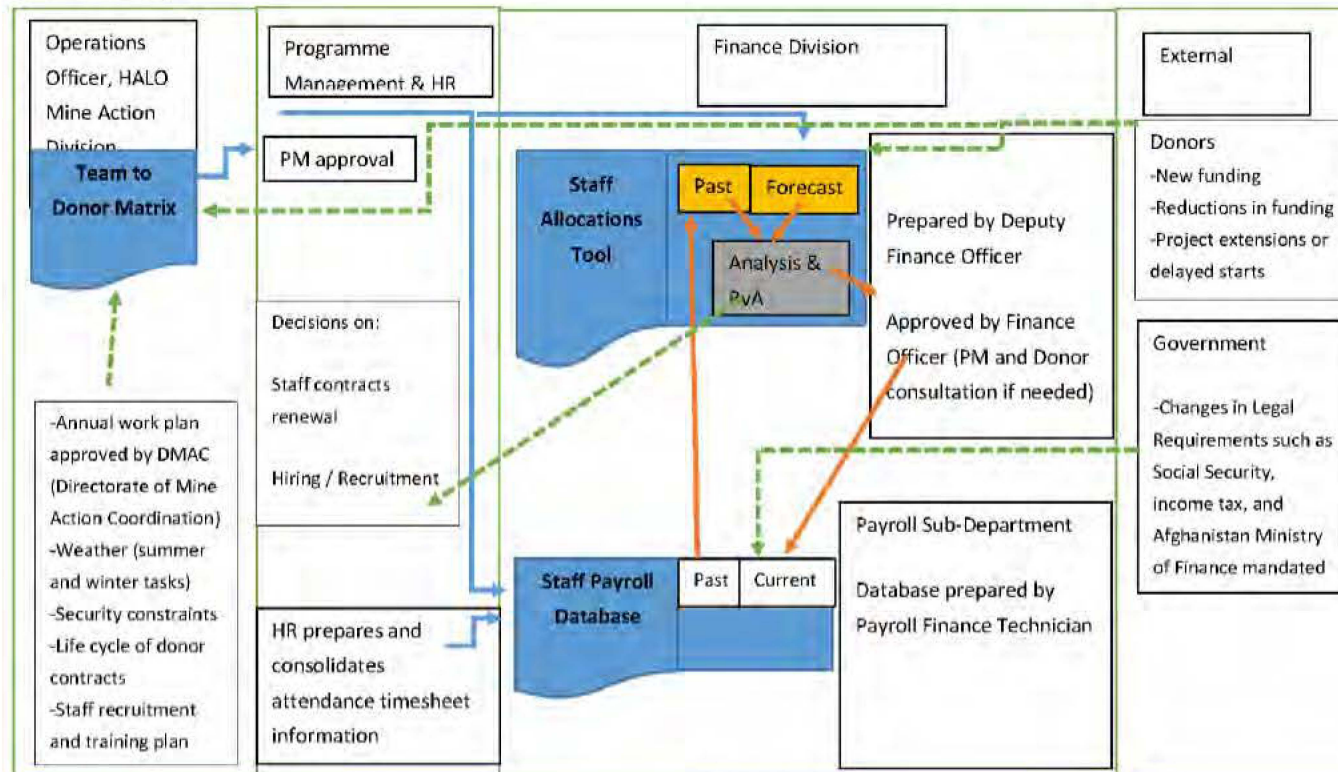
25. ANNEX A**HALO Afghanistan staff allocation working practice**

Please see below:

HALO AFGHANISTAN

STAFF ALLOCATIONS – WORKING PRACTICE

OBJECTIVE: Ensure all support staff are allocated in accordance with donor budgets whilst considering appropriate proportionality across donors

Process Diagram

1. **Input Actuals (Past in diagram)**
 - 1.1 Copy and paste the previous month's final payroll sheet (extracted from the payroll database) into the 'Consolidated payroll' tab.
 - 1.2 Update the formulas throughout the sheet to pull the previous month's actual payroll details into the sheet.
2. **Programme Updates: New Donors, extensions, contractions**
 - 2.1 Check for new budgets, extensions and budget variations submitted to donors which may impact on the charging of current staff. Ensure ongoing proportionality across donors.
 - 2.2 For follow-on funding or proposals which are probable to be awarded, include them in the orbat plan and estimate the project start date – Adjust staff allocation plans accordingly.
 - 2.3 Consider the effect of any changes to projects such as: change in location due to security issues.
 - 2.4 Consider total staff numbers if donor portfolio is to reduce in the medium to long term (not less than 3 months). Immediately raise with management if any staff reductions may be required to balance the portfolio of staff to direct delivery teams.
3. **Staff Allocation Planning (Forecast in diagram)**
 - 3.1 Check for staff without donor allocations for the next 6 months (min) to 1 year (max)
 - 3.2 Check for new staff / positions & assign a donor which has budgeted for this position. NOTE: This allocation must be compatible with other specifics of the project. For example if the support staff is based in a location, is it within the operational footprint of the donor? Support staff in Kabul HQ support the entire program, however, staff in HALO Afghanistan Northern Regional Office (Mazar-I-Sharif) should not be charged to a project which operates only in Kandahar. Operations Management face similar challenges but there is an added complexity of the projects work stream. HALO Afghanistan operations fall under three divisions: Mine Clearance Division, Weapons and Ammunition Management (WAM) Division, and Abandoned Improvised Mines (AIM) Division. The operations management structure for each division is separate as evidenced by the HALO Afghanistan Organigram. Therefore this must be taken into account when assigning donor allocations to these staff.
 - 3.3 Double check staff locations and consider their locations and work stream (as per above)
 - 3.4 Complete a draft by 5th of the current month. This may need further updates if changes to the Team to Donor Matrix are made.
 - 3.5 Share with the Payroll Finance Technician for entering the current month allocation into the staff database in preparation for the monthly payroll.
4. **Analysis of allocations - Budget to Current Allocations (Actual + Forecast) (Analysis in diagram)**
 - 4.1 Check that the variations from the budget are reasonable.

These variations should be explainable by either contracts specific reasons or programme wide reasons such as:
 - new staff, vacant positions, shortage of staff in a certain role.
 - expansion or consolidation in support departments
 - opening, closing, or consolidating location offices

- a short-term change in operational capacity on the programme (a donor contract delaying to begin)
- a medium to long-term change in operational capacity on the programme (increase or decrease in the size of HALO Afghanistan)

5. Guidelines for allocating staff

Substitutions of staff

- where possible stay within departments (Fleet, Finance, Survey, Data, Medical, etc.)
- do not needlessly change allocations of a member of staff each month
- allocate new staff to the donor which required the new position to be recruited.

Managing Adjustments to budgeted work plans

When adjusting the allocation plan due to short-term changes in organizational capacity or long-term changes, the following should be considered.

Short term changes:

Consider front loading or back loading teams to donor contracts if possible, ensuring that a higher proportion of support staff is allocated in proportion to delivery teams and in accordance with the proportions set in the original budget. Check if this has already been addressed in the Team to Donor Matrix. If so, match this for both support and operational management. Any differences must be approved by the Programme Manager.

Medium to long-term changes:

A lack of staff to be charged against contracts, consider with the PM and the department if the budgeted staff are necessary or not. Consider substituting other staff or plan to underspend this budget line, liaising with the donor where appropriate.

An excess of staff across departments (vs the budget):

Make acceptable additions across all contracts where it is possible to adjust within the variations allowable by the donors. Consider which contracts have amendments already planned and propose that the operations management and support staff budget lines be adjusted accordingly, ensuring appropriate scale of staff and donor proportionality.

If there is an excess of staff (vs the actual need):

Raise with management immediately. Review by the next contract issuing committee.

6. Update Staff Payroll Database

Once approved by the Finance Officer, the allocations should be updated in the Payroll Database. At the time of running the payroll, the HR department will prepare and consolidate a list of days absent, bonuses, and fines for updating the payroll database.

Appendix B – Auditor's Response to Management Comments

Williams, Adley & Company-DC, LLP (Williams Adley or auditor) has reviewed the letter dated June 19, 2020, containing The HALO Trust (HALO UK or auditee) responses to the draft audit report. In consideration of those views, we have included the following rebuttal to certain matters presented by the auditee regarding findings 2019-01 and 2019-02. Williams Adley did not deem it necessary to modify the questioned costs in the report based on our review of management's comments.

For reference, The HALO Trust (USA), Inc is referred to as 'HALO USA' and The HALO Trust is referred to as 'HALO UK'.

Finding 2019-01

HALO UK does not concur with this finding and strongly refutes the assertion that its allocation methodology is not consistent with the CFR, and its accounting systems don't support the controls, policies, and procedures necessary to be compliant with CFR requirements. As such, HALO UK disagrees with the questioned cost related to this finding.

While HALO UK argues that its accounting systems support the controls, policies, and procedures necessary to be compliant with CFR requirements, they did not provide the auditor with supporting documentation during the audit or as part of its management comments that demonstrates such compliance. HALO's stated allocation method is not documented in their accounting policies and procedures and official policies do not specifically address HALO's allocation of personnel expenses, nor do they document HALO's stated policy of allocating costs based on a program's operational capacity. Furthermore, HALO's proposed corrective action to convert the HALO Afghanistan working practice of allocating support costs to donors into a formal, documented SOP, that can be audited both internally and externally, supports the auditor's conclusion that current policies and procedures are not sufficiently documented to support CFR requirements.

HALO UK stated that all costs that cannot be directly attributed to grants, in this case administrative support, operational management, and international staff central support costs, are budgeted proportionally to grants, subject to income from other donors that HALO UK may leverage in the program. HALO claims that "...donors receive a fair and proportionate charge [of costs] in accordance with what they have agreed to fund in the program across the lifetime of the grant." However, this claim was not validated with quantifiable measures, as required by the CFR. For example, the auditor was not provided with an estimate of the percentage of total funding that PMWRA would be charged in costs. Further, HALO stated that they allocated charges proportionally based on income from other donors, and that using income as their allocation base "...is clearly the most appropriate basis for the charging of support costs." Yet, HALO did not provide information to substantiate this claim or demonstrate how income from donors is a performance oriented metric consistent with the CFR requirement for the allocation of personnel expenses.

In support of its assertion that PMWRA was not charged more than a proportional share of support costs across grants, based on program income, HALO UK provided several tables, one that contrasts PMWRA grant income proportions with that of other donors, and one that shows that the percentage of PMWRA grant income was comparable to the percentage of support staff costs charged. The tables, however, are not consistent with the CFR since they are unverifiable and use an allocation metric (donor income) that has not been substantiated by HALO to be performance oriented. And of equal import, we saw no evidence of a consistent use of the percentages found in these or any other tables in HALO's actual allocation of costs.

Additionally, HALO argues, in the table "*Actual Costs Charged versus Charges Based on Proportional Income Basis*," that it has actually undercharged PMWRA by an amount of \$774,861 compared to what it may have charged "...using proportionality across all grants." This claim, while wholly unverifiable, stands in direct contradiction to HALO's statements throughout their response that costs are allocated on a proportional basis, and underscores the auditor's conclusion that HALO's allocation methodology has not been substantiated.

While Williams Adley acknowledges the explanations provided in HALO UK's response, including the proposed corrective action aimed at documenting HALO UK's allocation methodology more fully, sufficient audit evidence to support CFR criteria for the Documentation of Personnel Expenses was not presented during the audit period or in HALO's response. As such, the finding and recommendations remain unchanged.

Finding 2019-02

HALO UK disagrees with this finding and asserts that there are no unsupported variances between the general ledger and the SF425 financial report. HALO UK also states that it fully reconciles general ledgers for both HALO USA and HALO UK to the grant awards.

Williams Adley refutes HALO UK's arguments that "...the grants which commenced before [2016] were directly implemented by HALO USA," and that "It is HALO USA's responsibility to submit the SF425 using its general ledger revenues and expenditures transactions. It is not therefore HALO UK's responsibility to account for **all** grant funds and related disbursements in its general ledger." As demonstrated in the table below, HALO UK was either the recipient, or sole subrecipient, of all eleven grants and therefore should have accounted for all grant funds and related disbursements in its general ledger in accordance with federal regulations and the Professional Services Agreement between HALO USA and HALO UK.

Award Number	Start Date	Recipient	Sole Subrecipient	Accountability, Reporting, and Monitoring Responsibilities
S-PMWRA-15-GR-1060	9/2/15	The HALO Trust ⁶ (HALO UK)	N/A	HALO UK ⁷
S-PMWRA-15-GR-1061	9/1/15	The HALO Trust ⁶ (HALO UK)	N/A	HALO UK ⁷
S-PMWRA-16-GR-1051	10/1/16	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰
S-PMWRA-16-GR-1053	8/11/16	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰
S-PMWRA-16-GR-1054	10/1/16	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰
S-PMWRA-17-GR-1010	2/2/17	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰
S-PMWRA-17-GR-1051	10/1/17	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰
S-PMWRA-17-GR-1056	9/21/17	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰
S-PMWRA-18-GR-0012	5/10/18	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰
S-PMWRA-18-GR-0014	5/10/18	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰
S-PMWRA-18-GR-0016	4/1/18	The HALO Trust (USA), Inc. ⁸	HALO UK ⁹	HALO UK ¹⁰

While HALO USA may have prepared the SF425, HALO UK was required, per the terms of the grant, to expend 100% of the grant funds and therefore should have been able to account for 100% of the funds expended. Further, HALO's statement that because the disbursements reported on the SF425 equal the income received as reported on the SF425 "...there are no funds to be refunded to the PMWRA" disregards the main point of the finding. HALO has yet to adequately explain, or provide documentation detailing and supporting, the \$134,280 difference between the reimbursed disbursements per the SF425 and the general ledger provided by HALO UK.

⁶ The HALO Trust, a foreign NGO (hereinafter referred to as the "Recipient").

⁷ As per award, HALO UK is responsible for the accountability of all Federal funds and reporting and monitoring in accordance with 2 CFR 200.300 – 200.303.

⁸ The HALO Trust (USA), Inc., a domestic nonprofit (hereinafter referred to as the "Recipient").

⁹ HALO UK is the sub-recipient of each award.

¹⁰ As per the Professional Services Agreement, HALO UK (the "Charity") shall maintain complete and accurate records of all payrolls, employment records, expenditures, disbursements and other cost items charged to the Corporation for establishing the basis of an invoice, for a minimum of four (4) years from the date of final payment to the Charity. All such records shall be clearly identifiable, and the Charity shall fill out and deliver a quarterly program and financial report twenty-five (25) days after each calendar year quarter, as per the requirements of the performance progress report.

HALO UK's response that the differences are "funds remitted to UK which have not been expended through the UK GL at 31 March 2019" merely highlights the difference between the SF425 and the disbursements without providing any meaningful reconciling supporting documentation. Without sufficient evidence to support the transactions comprising the variance, the finding and recommendations remain unchanged.

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