

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 21-17 Financial Audit

U.S. Department of State's Community-Based Demining Projects in Afghanistan: Audit of Costs Incurred by Afghan Technical Consultants



**FEBRUARY
2021**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

The U.S. Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (State) awarded Afghan Technical Consultants (ATC) five grants to support community-based demining, humanitarian mine clearance, and conventional weapons destruction projects in Afghanistan. Under the grants, ATC performed a variety of tasks, including clearing landmines to reduce civilian casualties and provide safe land for farming, grazing, and human habitation. The budgets for all five grants totaled \$6,376,420, and the period of performance was from December 2, 2015, through March 31, 2019. After nine amendments, the end date changed to May 31, 2019; the budget remained the same.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$6,376,420 in costs incurred for the five grants from December 2, 2015, through May 31, 2019. The objectives were to (1) identify and report on significant deficiencies or material weaknesses in ATC'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 ATC has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of ATC's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

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

February 2021

U.S. Department of State's Community-Based Demining Projects in Afghanistan: Audit of Costs Incurred by Afghan Technical Consultants

SIGAR 21-17-FA

WHAT SIGAR FOUND

Conrad identified four findings. Conrad classified three findings with deficiencies, two of which were significant, in ATC's internal controls, and three instances of noncompliance with the terms of the grants. For example, the auditors noted that ATC exceeded the approved budget for office rentals and the authorized rate for employee salaries; these resulted in ATC overcharging the government \$4,298.

Because of the deficiencies in internal controls and instances of noncompliance, Conrad identified a total of \$8,087 in questioned costs. The questioned costs consisted of \$3,789 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$4,298 in ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Vendor invoices and/or quotations were not addressed to ATC	\$0	\$3,159	\$3,159
Lack of adherence to procurement policy	\$0	\$630	\$630
Costs claimed exceeded approved budget rates	\$4,298	\$0	\$4,298
Total Costs	\$4,298	\$3,789	\$8,087

Conrad identified one previous audit report with three findings that could have a material impact on the SPFS, and concluded that ATC took adequate corrective action on the findings.

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

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$8,087 in questioned costs identified in the report.
2. Advise ATC to address the report's three internal control findings.
3. Advise ATC to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

February 18, 2021

The Honorable Antony Blinken
Secretary of State

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

We contracted with Conrad LLC (Conrad) to audit the costs incurred by Afghan Technical Consultants (ATC) under five grants supporting the U.S. Department of State's Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement's (State) community-based demining, humanitarian mine clearance, and conventional weapons destruction projects in Afghanistan.¹ Under the grants, ATC performed a variety of activities including clearing landmines to reduce civilian casualties and provide safe land for agriculture, grazing, and human habitation.

Conrad's audit covered \$6,376,420 in costs incurred from December 2, 2015, through May 31, 2019, across all five grants. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$8,087 in questioned costs identified in the report.**
- 2. Advise ATC to address the report's three internal control findings.**
- 3. Advise ATC to address the report's three noncompliance findings.**

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

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-196)

¹ The grant numbers are S-PMWRA-16-GR-1005, S-PMWRA-16-GR-1052, S-PMWRA-16-GR-1056, S-PMWRA-17-GR-1084, and S-PMWRA-18-GR-0013.

Afghan Technical Consultants (ATC)

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

For the Period of December 2, 2015 through May 31, 2019

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January 11, 2021

Board of Directors
Afghan Technical Consultants
Kabul, Afghanistan

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

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Afghan Technical Consultants' ("ATC") Special Purpose Financial Statement ("SPFS") for costs incurred under five grants ("Grants") awarded by the Department of State ("State"), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA") for the period of December 2, 2015 through May 31, 2019.

On December 9, 2020, we provided SIGAR with a draft report reflecting our audit procedures and results. ATC received a copy of the report on December 9, 2020; and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR and ATC. ATC's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

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

Sincerely,

A handwritten signature in blue ink, appearing to read "S. Perera", with a horizontal line underneath.

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Afghan Technical Consultants (ATC)

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

For the Period of December 2, 2015 through May 31, 2019

Background

Between 2015 and 2019, the Department of State ("State"), Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement ("PM/WRA") awarded five (5) Grants to Afghan Technical Consultants ("ATC") to support community-based demining, humanitarian mine clearance, and conventional weapons destruction projects in Afghanistan. These Grants had various periods of performance with an original period of performance, which ran between December 2, 2015 and March 31, 2019, with a total estimated original budget of \$6,376,420. ATC was tasked with the following principal objectives:

1. To contribute to improved security and stability in Afghanistan through the application of land release procedures to selected hazard sites in Parwan and Baghlan Provinces.
2. To assist the government and people of Afghanistan by contributing to development by clearing landmines and other explosive hazards.
3. To improve human security by enabling community-based demining in 14 communities in Kunduz Province, Afghanistan.
4. The elimination of landmines and Explosive Remnants of War ("ERW") in Afghanistan, thereby reducing the number of casualties among the civilian population, ensuring a safe environment, and enabling land to return to productive agricultural, grazing, habitation, and other economic development use.

ATC provided services, equipment, and facilities, as necessary. The initial approved budget for all five Grants totaled \$6,376,420. This total approved budget remained unchanged; however, there were various amendments that extended the period of performance for four out of the five Grants, which resulted in the Grants periods of performance being ran from December 2, 2015 and May 31, 2019. See Summary of Grants below:

Summary of Grants

Grant Number	Original			As Amended		
	Cost (\$)	Start	End	No. of Amendments	Total Final Budget (\$)	End
S-PMWRA-16-GR-1005	\$1,887,370	12/02/2015	09/30/2016	1	\$1,887,370	11/30/2016
S-PMWRA-16-GR-1052	1,057,218	10/01/2016	09/30/2017	3	1,057,218	11/30/2017

Afghan Technical Consultants (ATC)

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S-PMWRA-16-GR-1056	1,040,832	10/01/2016	09/30/2017	3	1,040,832	08/31/2017
S-PMWRA-17-GR-1084	620,000	09/28/2017	08/27/2018	None	620,000	No Change
S-PMWRA-18-GR-0013	1,771,000	05/11/2018	03/31/2019	2	1,771,000	05/31/2019
Total:	\$6,376,420			9	\$6,376,420	

Work Performed

Conrad LLP ("Conrad") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of five Grants, as mentioned above, of ATC's Special Purpose Financial Statement ("SPFS") for costs incurred under the PM/WRA totaling \$6,376,420 for the period December 2, 2015 through May 31, 2019.

A summary of the program to be audited is as follows:

Grant No.	Grant Period		Audit Period*		Audit Amount
	Start	End	Start	End	Cost (\$)
S-PMWRA-16-GR-1005	12/02/2015	11/30/2016	12/02/2015	11/30/2016**	\$1,887,370
S-PMWRA-16-GR-1052	10/01/2016	11/30/2017	10/01/2016	11/30/2017**	1,057,218
S-PMWRA-16-GR-1056	10/01/2016	08/31/2017	10/01/2016	08/31/2017**	1,040,832
S-PMWRA-17-GR-1084	09/28/2017	08/27/2018	09/28/2017	08/27/2018**	620,000
S-PMWRA-18-GR-0013	05/11/2018	05/31/2019	05/11/2018	05/31/2019**	1,771,000
Total:					\$6,376,420

* The period of performance falls within the scope of the audit.

** Close-out Audit

Afghan Technical Consultants (ATC)

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

For the Period of December 2, 2015 through May 31, 2019

Objectives, Scope, and Methodology

Audit Objectives

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

- *Special Purpose Financial Statement (“SPFS”)* – Express an opinion on whether ATC’s SPFS for the awards presents fairly, in all material respects, the 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 awards and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of ATC’s internal controls related to the awards; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether ATC complied, in all material respects, with the awards requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with the terms of the awards and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether ATC has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred during the period of December 2, 2015 through May 31, 2019 totaling \$6,376,420 under the Grants. Our testing of the indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved in each of the Grants and subsequent applicable amendments.

Methodology

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

Entrance Conference

An entrance conference was held on May 13, 2020, with representatives of ATC, Conrad, SIGAR, and PM/WRA participating via conference call. The purpose of the entrance conference was to discuss the

Afghan Technical Consultants (ATC)

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nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of ATC;
- Reviewed the Grants and Amendments;
- Reviewed regulations specific to State that are applicable to the Grants;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - o For accounts that appear to contain unallowable and restricted items according to the terms of the Grants, Title 2 Part 200: Code of Federal Regulations (2 CFR 200), and Title 2 Part 600: Code of Federal Regulations (2 CFR 600), and any other applicable regulations, we tested 100% of the transactions.
 - o For related party transactions, we did not identify any related party transactions.
 - o For high risk cost categories, we sampled transactions greater than \$31,900 not to exceed 30% of the total amount expended for each cost category.
 - o For medium risk cost categories, we sampled transactions greater than \$63,800 not to exceed 20% of the total amount expended for each cost category.
 - o For low risk cost categories, we sampled transactions that are greater than \$63,800 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

Afghan Technical Consultants (ATC)

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

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Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Grants and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Grants, and reasonable; and
- Reviewed personnel costs to ensure they are supported, authorized, reasonable, and allowable.

Internal Controls Related to the Grants

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

Compliance with Grant's Requirements and Applicable Laws and Regulations

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

Corrective Action on Prior Findings and Recommendations

Conrad requested from ATC, as well as conducted a search online to various governmental websites, including SIGAR, State, and other applicable Federal agencies, to identify previous engagements that could have a material effect on ATC's SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Status of Prior Audit Findings section on page 31.

Afghan Technical Consultants (ATC)

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Exit Conference

An exit conference was held on October 8, 2020, via conference call. Participants included representatives from Conrad, ATC, SIGAR, and PM/WRA. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Upon completion of our audit of the costs incurred by ATC under their five Grants with PM/WRA, we issued an unmodified opinion on the SPFS and identified four findings that amounted to \$8,087 in questioned costs. We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS. We identified \$8,087 in total questioned costs, comprised of \$4,298 in ineligible costs, \$3,789 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the award provisions or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Findings and Questioned Costs

The four findings listed below are classified as either an internal control deficiency or noncompliance, or if both classifications were identified then a combination of both were presented. Also, internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on ATC's SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2020-01	Internal control – Significant Deficiency	Vendor invoices and/or quotations were not addressed to ATC.	\$0	\$3,159	\$3,159

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2020-02	Non-Compliance; Internal Control – Deficiency	Lack of adherence to procurement policy	\$0	\$630	\$3,789
2020-03	Non-compliance; Internal control – Significant deficiency	Costs claimed exceeded approved budget rates	\$4,298	\$0	\$8,087
2020-04	Non-Compliance	Lacked adherence to Afghanistan tax laws	\$0	\$0	\$8,087
Total Questioned Costs			\$4,298	\$3,789	\$8,087

Internal Control Findings

Our audit discovered three internal control findings, one deficiency and two significant internal control deficiencies. See Independent Auditor's Report on Internal Control on page 17.

Compliance Findings

The results of our testing disclosed three instances of non-compliance related to this audit. See the Independent Auditor's Report on Compliance on page 20.

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

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to ATC's activities under the Grants, we identified 1 prior engagement that contained three findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have reviewed the corrective actions taken to address these findings and recommendations. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. Based on our review, ATC has taken adequate

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

Summary of ATC's Responses to Findings

The following represents a summary of the responses provided by ATC to the findings identified in this report (The complete responses received can be found in Appendix B to this report):

- (1) 2020-01: ATC did not disagree nor agree with the finding. ATC stated that the main goals and objectives of the projects were successfully achieved as per the signed Grants. However, it was acknowledged that administration and procurement rules were affected due to security threats and lack of standard invoices in local market shops as well as uneducated shopkeepers. ATC stated internal audit policies and financial controlling mechanism will be reviewed for further improvements and that the issues described have been recorded as lessons learned.
- (2) 2020-02: ATC did not disagree nor agree with the finding. ATC stated that the internal procurement policy was followed. It was further stated that the emergency circumstance for the questioned procurement was documented by the purchase committee and the purchase committee explained that the process was affected due to mobilization of the team to remote districts, which confirmed the emergency process of the said procurement. ATC stated that the issue described has been recorded as a lesson learned.
- (3) 2020-03: ATC did not disagree nor agree with the finding. ATC stated that all budget lines for all Grants were underspent or less than 10% overspent.
- (4) 2020-04: ATC did not disagree nor agree with this finding. ATC stated the tax withholding from vendors for tax years 2016, 2017, and 2018 was challenging and that ATC was granted tax clearance for those years as the tax matters were closed. Furthermore, it was stated that improved policies have been implemented to communicate and collect the tax obligation from suppliers.



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Afghan Technical Consultants
Kabul, Afghanistan

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

Report on the Consolidated Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Afghan Technical Consultants ("ATC") and the related notes to the Special Purpose Financial Statement, with respect to the five Grants awarded by the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement, as listed under the **Summary of Grants** section of this report, for the period of December 2, 2015 through May 31, 2019.

Management's Responsibility for the Consolidated Special Purpose Financial Statement

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

Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

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

reporting aspects of the audit. Our subcontractor did not meet the continuing professional education requirements or peer review requirements as outlined in *Government Auditing Standards*, as the firm is located and licensed outside of the United States of America. The results of the audit were not affected as we directed the procedures performed and reviewed the work completed by our subcontractor.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the ATC's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ATC's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by ATC for the five Grants, as listed under the **Summary of Grants** section of this report, for the period of December 2, 2015 through May 31, 2019, in accordance with the basis of accounting described below.

Basis of Accounting

We draw attention to Note 1 and Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation and accounting. As described in Note 1 and 2 to the Statement, the Statement is prepared by ATC on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 7, 2021 on our consideration of ATC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ATC's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Afghan Technical Consultants, the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

A handwritten signature in dark blue ink that reads "Conrad LLP". The script is cursive and fluid, with the "C" being particularly large and stylized.

Lake Forest, California
January 7, 2021

Afghan Technical Consultants (ATC)

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

For the Period of December 2, 2015 through May 31, 2019

Special Purpose Financial Statement (Consolidated)

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
Five Grants (Combined)	<u>\$6,376,420</u>	<u>\$6,376,420</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(4)
Total revenues	<u>6,376,420</u>	<u>6,376,420</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	2,498,814	2,503,852	2,703	-	2,703	(A)
Fringe benefits	921,954	857,905	265	-	265	(A)
Travel and DSA	992,532	1,048,726	-	-	-	
Training	3,920	1,017	-	-	-	
Expendable equipment	236,414	215,440	-	751	751	(B)
Non-Expendable equipment	22,400	10,059	-	-	-	
Contractual	186,601	195,088	940	274	1,214	(C)
Operating costs	427,867	445,047	-	264	264	(D)
Other direct costs	399,106	435,337	-	2,156	2,156	(E)
Indirect costs	<u>686,812</u>	<u>663,949</u>	<u>390</u>	<u>344</u>	<u>734</u>	(F)
Total costs incurred	<u>\$6,376,420</u>	<u>\$6,376,420</u>	<u>\$ 4,298</u>	<u>\$ 3,789</u>	<u>\$ 8,087</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

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

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

Afghan Technical Consultants (ATC)

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

Notes to the Special Purpose Financial Statement¹

(1) Basis of Presentation

The accompanying Special Purpose Financial Statement ("Statement") includes costs incurred under the Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement grant numbers S-PMWRA-16-GR-1005, S-PMWRA-16-GR-1052, S-PMWRA-16-GR-1056, S-PMWRA-17-GR-1084, and S-PMWRA-18-GR-0013 for demining activities conducted in Afghanistan during the period December 2, 2015 through May 31, 2019. Because the Statement presents only a selected portion of the operations of the Afghan Technical Consultants ("ATC"), it is not intended to and does not present the financial position, changes in net assets, or cash flows of ATC. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal grants.

(2) Basis of Accounting

Expenditures reported on the Statement are reported on the cash basis of accounting. Such expenditures are recognized in accordance with the cost principles of the Uniform Guidance, 2 CFR 200, wherein certain types of expenditures are not allowable or are limited to reimbursement.

(3) Foreign Currency Conversion Method

During the course of each project, ATC converts foreign currency from Afghanistan to United States Dollars using an average exchange rate. The source of the exchange rates used in the conversions was the exchange rate employed by the bank at the time of the exchange.

(4) Revenues

Revenues on the Statement represent the amount of funds received from the United States Department of State through drawdowns made through the Payment Management System.

(5) Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, approved grant agreements and amendments, as applicable. Further approvals are required for adding new budget item lines and for more than a 10% variance to original budget categories.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of Afghan Technical Consultants.

Afghan Technical Consultants (ATC)

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

Notes to the Special Purpose Financial Statement

(6) Expendable and Non-Expendable Equipment

For purposes of the Statement, there are two line-items referencing Equipment. "Non-Expendable Equipment" is defined as goods or equipment with a cost of \$1,000 or greater and having a useful life of one year or more. "Expendable Equipment" is defined as goods or equipment with a cost of less than \$500 and having a useful life of less than one year as per ATC Internal Policies. (Based on DoS policies the equipment cost considered for an amount of \$5,000)

(7) Fund Balance

The fund balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that cash was received from the United States Government that exceeds the actual costs incurred or charged to the Grants and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation prior to accompanying payments being received from the United States Government.

(8) Currency

All amounts presented are shown in United States dollars.

(9) Bank Account Interest

ATC maintains one main account for fund receiving and separate sub-bank accounts for payment management. These accounts are opened as current accounts with no interest received. The bank accounts are supported with monthly bank reconciliations and records of bank statements accordingly.

(10) Periods of Performance

Pursuant to Federal regulations, allowable costs are limited to those obligations incurred during the period of performance of a grant. The periods of performance for each grant began on the day stated in the award documents and the project duration was also stated in the award documents unless an extension was approved. The original project period for Award No: S-PMWRA-16-GR-1005 was December 2, 2015 through September 30, 2016, but was extended through November 30, 2016; the original project period for Award No: S-PMWRA-16-GR-1052 was October 1, 2016 through September 30, 2017, but was extended through November 30, 2017; the original project period for Award No: S-PMWRA-16-GR-1056 was October 1, 2016

(Continued)

Afghan Technical Consultants (ATC)

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

Notes to the Special Purpose Financial Statement

through August 31, 2017, but was extended through September 30, 2017; and the original project period for Award No: S-PMWRA-18-GR-0013 was November 5, 2018 through March 31, 2019, but was extended through May 31, 2019.

(11) Funds Returned/Re-Obligated

No funds were returned to PMWRA for the awards under audit.

(12) Status of Projects

Each project funded by the Grants referenced in the Statement are implemented and closed. No additional charges are anticipated.

(Continued)

Afghan Technical Consultants (ATC)

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

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

For the Period of December 2, 2015 through May 31, 2019

(A) Personnel and Fringe Benefits

ATC reported a total of \$2,503,854 for personnel costs and a total of \$857,905 in related fringe benefits across all five Grants for the period of December 2, 2015 through May 31, 2019.

During our audit of these costs, we noted:

- (1) Salary rates for various employee positions exceeded the proposed and approved rates, which resulted in total ineligible costs of \$2,703. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.
- (2) As a direct result of the ineligible personnel costs, the associated fringe benefits totaling \$265 are also ineligible costs. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we have questioned a total of \$2,968 in ineligible costs.

(B) Expendable Equipment

ATC reported a total of \$215,061 for expendable equipment costs across all five Grants for the period of December 2, 2015 through May 31, 2019. During our audit of these costs, we noted that invoices and/or quotations for expendable materials, such as batteries, tools, paint, rope, and compasses, were not addressed to a specific entity. This resulted in total unsupported costs of \$751. See Finding No. 2020-01 in the Schedule of Findings and Questioned Costs section of this report.

(C) Contractual

ATC reported a total of \$195,087 for contractual costs across all five Grants for the period of December 2, 2015 through May 31, 2019.

During our audit of these costs, we noted:

- (1) An invoice for contractual utility costs, such as gas, water, electricity, and oil, was not addressed to a specific entity. This resulted in total unsupported costs of \$274. See

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

Afghan Technical Consultants (ATC)

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

Notes to Questioned Costs Presented on Special Purpose Financial Statement

For the Period of December 2, 2015 through May 31, 2019

Finding No. 2020-01 in the Schedule of Findings and Questioned Costs section of this report.

- (2) Tent rental rates various exceeded the proposed and approved rates, which resulted in total ineligible costs of \$940. See Finding No. 2020-03 in the Schedule of Findings and Questioned Costs section of this report.

(D) Operating Costs

ATC reported a total of \$445,426 for operating costs across all five Grants for the period of December 2, 2015 through May 31, 2019. During our audit of these costs, we noted that various invoices for costs, such as field supplies and vehicle were not addressed to a specific entity. This resulted in total unsupported costs of \$264. See Finding No. 2020-01 in the Schedule of Findings and Questioned Costs section of this report.

(E) Other Direct Costs

ATC reported a total of \$435,336 for other direct costs across all five Grants for the period of December 2, 2015 through May 31, 2019.

During our audit of these costs, we noted:

- (1) Various invoices for costs, such as fuel, stationery, and equipment were not addressed to a specified entity or were addressed to an individual. This resulted in total unsupported costs of \$1,583. See Finding No. 2020-01 in the Schedule of Findings and Questioned Costs section of this report.
- (2) Director's approval on the purchase requisition for an urgent purchase was not obtained as required by ATC's internal policy, which resulted in total unsupported costs of \$573. See Finding No. 2020-02 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we have questioned a total of \$2,156 in unsupported costs.

(Continued)

Afghan Technical Consultants (ATC)

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

Notes to Questioned Costs Presented on Special Purpose Financial Statement

For the Period of December 2, 2015 through May 31, 2019

(F) Indirect Costs

ATC reported a total indirect cost amount of \$663,949 for the period of December 2, 2015 through May 31, 2019. The indirect costs associated with questioned costs identified in **Notes A through E** above resulted in total ineligible indirect costs of \$390 and total unsupported indirect cost of \$344 are being questioned. This resulted in a total questioned indirect cost of \$734.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Afghan Technical Consultants
Kabul, Afghanistan

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Afghan Technical Consultants (ATC) representing revenues received and costs incurred for the five Grants listed **Summary of Grants** of this report, awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) supporting various community based demining projects throughout Afghanistan for the period of December 2, 2015 through May 31, 2019, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated January 7, 2021 with an unmodified opinion..

Internal Control over Financial Reporting

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

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

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

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

ATC's Response to Findings

ATC's response to the findings identified in our audit is included verbatim in Appendix B. ATC'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 result of that testing, and not to provide an opinion on the effectiveness of the ATC's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Afghan Technical Consultants, United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA), and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Lake Forest, California
January 7, 2021



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Afghan Technical Consultants
Kabul, Afghanistan

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of Afghan Technical Consultants (ATC) representing revenues received and costs incurred for the five Grants listed **Summary of Grants** of this report, awarded by the United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA) supporting various community based demining projects throughout Afghanistan for the period of December 2, 2015 through May 31, 2019, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated January 7, 2021 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ATC's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2020-02, 2020-03, and 2020-04.

ATC's Response to Findings

ATC's response to the findings identified in our audit is included verbatim in Appendix B. ATC'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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Afghan Technical Consultants, United States Department of State, Bureau of Political-Military Affairs, Office of Weapons Removal and Abatement (PM/WRA), and the Special Inspector General for Afghanistan Reconstruction and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

A handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California
January 7, 2021

Afghan Technical Consultants (ATC)

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

For the Period of December 2, 2015 through May 31, 2019

Schedule of Findings and Questioned Costs

Finding 2020-01: Vendor invoices and/or quotations charged to Grants were not addressed to ATC

Nature of Finding: Internal Control – Significant Deficiency

Condition: During our testing of costs incurred for the five Grants, we noted the following instances where vendor invoices and/or quotations were not specifically addressed to ATC but rather to an individual or not addressed to a specific entity. ATC explained that suppliers occasionally missed the organization name on the invoice or will write the name of the ATC personnel whom they were dealing with or forget to write ATC's name on the invoice. Addressing invoices and/or quotations to ATC allows ATC to determine if the invoices are allowable and chargeable to the Grants.

- A sample of 687 transactions valued at \$89,296 out of a population of 1,883 valued at \$215,061 was judgmentally selected from the Expendable Equipment category of the SPFS. Based on our analysis, we noted three instances where vendor invoices were not addressed to a specific entity and one instance where a vendor quotation was not addressed to a specified entity. Such costs incurred included demining equipment kits (GPS, compass, tools, paint, rope, hook, etc.) and batteries for torch/walkie-talkies and mine detector. The lack of a specified addressee and/or project resulted in questionable costs of \$751.
- A sample of 335 transactions valued at \$77,612 out of a population of 1,399 valued at \$195,087 was judgmentally selected from the Contractual category of the SPFS. Based on our analysis, we noted one instance where a vendor invoice was not addressed to a specific entity. Such costs incurred included utilities (gas, water, electricity, oil, etc.). The lack of a specified addressee and/or project resulted in questionable costs of \$274.
- A sample of 985 transactions valued at \$153,983 out of a population of 3,820 valued at \$445,426 was judgmentally selected from the Operating Costs category of the SPFS. Based on our analysis, we noted six instances where vendor invoices were not addressed to a specific entity. Such costs incurred included field supplies and vehicle maintenance. The lack of a specified addressee and/or project resulted in questionable costs of \$264.
- A sample of 927 transactions valued at \$163,271 out of a population of 4,388 valued at \$435,336 was judgmentally selected from the Other Direct Costs category of the SPFS. Based on our analysis, we noted twenty instances where vendor invoices were not addressed to a specific entity and two instances where vendor invoices were addressed to an individual. Such costs incurred included fuel and lubricants for vehicle, stationery, fuel for heating/generator, field supplies, vehicle maintenance, and utilities. (gas, water, electricity, oil, etc.). The lack of a specified

addressee and/or project and addressing to an individual rather than the entity resulted in questionable costs of \$1,583.

These issues resulted in unsupported questionable costs totaling \$2,872, as the costs could not be properly verified to be project costs associated with a particular grant.

Criteria:

2 CFR 200.34 (Expenditures) states, in part:

“Expenditures means charges made by a non-Federal entity to a project or program for which a Federal award was received....”

2 CFR 200.83 (Project Cost) states, in part:

“Project cost means total allowable costs incurred under a Federal Award...”

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

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

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

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

(1) Is incurred specifically for the Federal award;...”

2 CFR 200.413 (Direct Costs) states, in part:

“(a) Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.”

Cause: ATC did not have an internal policy that specifically required that vendor invoices and/or quotations to be addressed to ATC in order for them to be paid.

Effect: ATC's lack of internal policy ensuring that each invoice and/or quotation is specifically addressed to ATC leads to uncertainty that invoiced costs are intended for the Grants and hinders efforts to verify whether the invoiced amounts are chargeable to the Grants. As such, this resulted in unsupported costs claimed.

Questioned Costs: Unsupported questioned costs identified totaled \$3,159, of which \$287 represents associated indirect costs.

Recommendation:

- (1) We recommend that ATC either provide PM/WRA with further evidence that the vendor invoices and/or quotations were billed to ATC and were related to the subject projects or return \$3,159 in unsupported costs.
- (2) We recommend that ATC develop an internal policy that requires all vendor invoices/quotations to be addressed to ATC prior to payment and an internal memo informing all employees to strictly adhere to the newly developed policy.

Finding 2020-02: Lack of adherence to procurement policy

Nature of Finding: Non-compliance and Internal Control – Deficiency

Condition: A sample of 927 transactions valued at \$163,271 out of a population of 4,388 valued at \$435,336 was judgmentally selected from the Other Direct Costs category of the SPFS. During our testing to determine the allowability and support adequacy of these incurred costs, we noted that there was one instance where ATC did not receive the Director's approval on an "urgent" purchase of office stationery totaling \$573 as required by ATC's internal policy.

Criteria:

ATC's Logistics & Asset Management SOP, Section 1.3.1 – Purchasing, states:

"Purchasing Limit at ATC will be as follow: ... (d) Purchases of USD 501.00 and above will be made by a separate purchase committee. The committee will prepare three RFQ and will submit to concerned vendors for asking Quotations. After receiving all quotations, the procurement office will prepare the Comparative Statement to specify the lowest cost / vendor, then it will be attested by logistic manager and checked by finance manager and finally approved by director prior to making the purchase."

ATC's Logistics & Asset Management SOP, Section 1.4.1 – Requisition Form, states:

"Whenever a staff member needs for goods and services, he/she have to fill the requisition form and submit it to the logistic department for further process after the approval of his/her line manager, except for emergency situations. The person giving the requisition has to mention the level of priority or urgency in the requisition form. In case there is any order marked URGENT; at HQ level The Director approval is required and in Field offices the Project manager/officer approval is required."

2 CFR 200.303 (Internal Controls) states in part:

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

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

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

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity...
- (g) Be adequately documented..."

2 CFR 200.404 (Reasonable Costs) states in part:

"A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal

entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:...

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

Cause: ATC's management failed to adhere to the specific requirement set forth in sections 1.3.1 and 1.4.1 of ATC's procurement policy as it relates to urgent purchases. This appears to be an isolated incident.

Effect: ATC's failure to adhere to its own internal procurement policy can lead to unsupported costs charged to the Grants which would concurrently inflate program costs.

Questioned Costs: Unsupported questioned costs identified totaled \$630, of which \$57 represents associated indirect costs.

Recommendation:

- (1) We recommend that ATC either provide evidence to PM/WRA that the purchase was properly procured and approved by management as required by their procurement policy or return \$630 in unsupported costs.
- (2) We recommend that ATC provide training to employees responsible for procurement to assist in the strict adherence to its procurement policy.

Finding 2020-03: Costs claimed exceeded the approved budget rates

Nature of Finding: Non-compliance and Internal Control – Significant Deficiency:

Condition: During our testing of Personnel and Contractual costs, we noted the following instances where ATC claimed rates that exceeded the authorized rate as approved in the applicable budget:

- A sample of 534 transactions valued at \$806,143 out of population of 1,612 valued at \$2,503,854 was judgmentally selected from the Personnel category of the SPFS. During our testing, we noted 31 instances where employee salary rates claimed exceeded the authorized pay rate that was proposed and approved for various employee classifications. This resulted in total ineligible costs of \$2,968, which includes related Fringe Benefits as illustrated below:

Position	Monthly Rate		Over (Under)	No. of Issues	Total Variance
	Rate as Tested	Rate as Authorized in the Approved Budget			
Grant No: S-PMWRA-16-GR-1052					
Site/OPS Officer	\$ 496	\$ 459	\$ 37	3	\$ 111
Field – Operator	334	226	108	1	108
Fringe Benefits					23
Grant No. S-PMWRA-16-GR-1056					
Field – Operator	259	226	33	2	66
MD & Radio Mechanic	440	329	111	4	444
Machine Mechanic	329	283	46	3	138
Vehicle Mechanic	388	226	162	1	162
Field – Guard	132	120	12	2	24
Field – Operator	331	283	48	1	48
Driver	225	172	53	1	53
Fringe Benefits					92
Grant No. S-PMWRA-17-GR-1084					
Admin In-Charge	523	350	173	4	692
Team Admin	549	350	199	3	597
Fringe Benefits					124
Grant No. S-PMWRA-18-GR-0013					
MD & Radio Mechanic	440	400	40	5	200
DT Staff – Guard	240	180	60	1	60
Fringe Benefits					26
Subtotal - Personnel					2,703
Subtotal - Fringe Benefits					265
Totals			\$ 1,347	31	\$ 2,968

- A sample of 335 transactions valued at \$77,612 out of a population of 1,399 valued at \$195,087 was judgmentally selected from the Contractual category of the SPFS. During our testing, we noted two instances where site office rent claimed exceeded the authorized rate that was proposed and approved. This resulted in total ineligible costs of \$940 as illustrated below:

(Continued)

	Monthly Rate				
Cost Type	Rate as Tested	Rate as Authorized in the Approved Budget	Over (Under)	No. of Issues	Total Variance
Grant No. S-PMWRA-18-GR-0013					
Site Office Rent – Nov 2018	\$ 440	\$ 300	\$ 140	1	\$ 140
Site Office Rent – Jan-Apr 2019	500	300	200	4	800
Totals			\$ 340	5	\$ 940

Criteria:

Section 1.5.4 (Working Hours) of ATC's Human Resource Management Standard Operating Procedures states, in part:

"ATC ensures all employees have the legal right to be employed in the ATC and shall be paid based on approved DMAC salary scales and project approved budget."

5.5 Annex E (Salary Scale) of ATC's Human Resource Management Standard Operating Procedures states:

"Salary is payable to project staff base on donor project approved budget."

Section 1.4.2 (Responsibilities of verifying officers) of ATC's Finance Manual Standard Operating Procedures states:

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

2 CFR 200.303 (Internal Controls) states in part:

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

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

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

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

2 CFR 200.404 (Reasonable Costs) states in part:

"A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:...

(c) Market prices for comparable goods or services for the geographic area.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.

(Continued)

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

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

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

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

Cause: ATC's accounting for the excess charges as stated above is due to their unfamiliarity with the Department of State's Standard Terms and Conditions. ATC's believes that based on the Department of State's Standard Terms and Conditions Section XIII, Prior Approval Requirements, prior donor authorization is only required in the case when any of the budget cost category incurred exceeded total direct costs of the award by more than 10%. However, this particular finding is not in direct correlation with whether or not costs incurred under certain cost categories exceeded the 10% threshold or if it required the donor's approval. The finding states that ATC claimed certain salary position and rent rates that had exceeded the approved rates in the applicable budget. As cited in the criteria section above, ATC's policies and procedures and the applicable CFR requires that ATC should be paid in conformity with any limitations set forth in the Federal award as well as approved budget.

Effect: The monthly rates that were charged exceeded the applicable approved budget rates which resulted in the award recipient overcharging the Grants with inflated costs. As such, this resulted in ineligible costs being claimed.

Questioned Costs: Ineligible costs identified totaled \$4,298, of which \$390 represents associated indirect costs.

Recommendation:

- (1) We recommend that ATC obtain approval from PM/WRA for the items claimed to be allowable in the event that they exceeded the approved rates in the budget or return \$4,298 in ineligible costs.
- (2) We recommend that ATC develop additional controls and procedures to ensure rate charged to the Grants does not exceed the approved budget rate or submit modifications for any rate changes for State's approval in a timely manner.
- (3) We recommend that ATC provide training to management and staff to be better familiarize them with the State's Standard Terms and Condition applicable to Grants.

Finding 2020-04: ATC did not adhere to Afghanistan Tax Law

Nature of Finding: Non-Compliance

Condition: During our testing of the Contractual, Fringe Benefits, Operating, Indirect, and Other Direct Costs under SPFS line items totaling 3,129 samples, we noted 26 instances where ATC did not withhold taxes from supplier purchases as required by Afghanistan Tax Law. ATC explained that the issues were noticed by the Tax office while clearing the Annual Income Tax Returns of ATC for the 2016, 2017, and 2018 tax years. ATC stated that the suppliers were contacted and had paid the related taxes along with any other fees due to the Afghan government to close the matter.

Criteria:

According to the Mandatory Award Provisions, Section 15, Additional Bureau/Post Specific Requirements, subsection (p), states:

“All award recipients must comply with applicable local and national laws in the host countries in which this award is implemented.”

According to Article 72 of Afghanistan Tax law, Withholding tax on contractors, states:

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

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

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

Cause: Taxes were not withheld from the supplier(s) at the time of transaction, due to ATC personnel's lack of knowledge with the applicable Afghan tax law.

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

Questioned Costs: None

(Continued)

Recommendation:

- (1) We recommend that ATC implement policies and procedures to ensure compliance with all applicable Afghan tax laws.
- (2) We recommend that ATC train its current personnel on how to properly withhold and report required taxes on all applicable purchases in accordance with Afghanistan tax law.

Afghan Technical Consultants (ATC)

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

For the Period of December 2, 2015 through May 31, 2019

Status of Prior Audit Findings

We requested from ATC, SIGAR, and conducted additional searches online for any prior engagements including audits, reviews, and evaluations pertinent to ATC's activities. We identified five audit reports that were conducted by various local Afghanistan Chartered Accounting Firms on the five closed-out Grants listed under the **Summary of Grants** section of this report. Based on our review of these reports, no audit findings were identified that could have a material effect on the SPFS and other financial data significant to the audit objectives.

In addition, we also reviewed a prior SIGAR audit report, Financial Audit 14-11, that was published in December 2013, and noted that seven findings were identified. Based on our review of these findings, we identified three findings could have a material effect on the SPFS and other financial data significant to the audit objectives. We reviewed the responses and corrective actions taken to address these three findings and recommendations. Our review procedures included a follow up discussion with ATC's management, as well as conducting similar tests surrounding the identified areas during our current audit. We have summarized the results of our procedures below:

Finding No. 2013-01: Allowable Costs – International Travel Approvals

Issue: Non-compliance issue identified as it pertained to four international travel trips where the trips were not pre-approved by the Grants Officer for a total questioned cost of \$23,838.

Status: For the current engagement, it was noted that all international travel transactions selected for testing were properly approved beforehand by the awarding agency. As such, it has been concluded that ATC has taken adequate corrective action as this was not identified as a repeated issue.

Finding No. 2013-02: Equipment and Property Management – Stolen and Destroyed Property

Issue: A significant deficiency and non-compliance issue identified as it pertained a series of goods being destroyed as a result of a fire or were stolen. This resulted in the items not being able to be used for Federal purposes for a total questioned cost of \$140,060.

Status: For the current engagement, it was noted that there were no reported thefts or occurrences of destroyed property. ATC has hired a security guard to safeguard ATC's offices and grant funded assets. Also, we did not identify any evidence that would suggest otherwise. As such, it has been concluded that ATC has taken adequate corrective action as this was not identified as a repeated issue.

Finding No. 2013-03: Allowable Costs – Employee Time Records

Issue: A material weakness and non-compliance issue identified as it pertained to employee timesheets not being available to support eleven personnel cost transactions for a total questioned cost of \$38,956.

Status: For the current engagement, it was noted that there were no instances identified where there was a lack of evidence of employee timesheets. As such, it has been concluded that ATC has taken adequate corrective action as this was not identified as a repeated issue.

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
Grant No. S-PMWRA-16-GR-1005

Special Purpose Financial Statement

For the Period of December 2, 2015 through November 30, 2016

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u> <u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
S-PMWRA-16-GR-1005	\$ 1,887,370	\$ 1,887,370	\$ -	\$ -	\$ -	(4)
Total revenues	<u>1,887,370</u>	<u>1,887,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	659,551	669,134	-	-	-	
Fringe benefits	269,502	244,693	-	-	-	
Travel and DSA	280,228	307,322	-	-	-	
Training	-	-	-	-	-	
Expendable equipment	124,564	118,737	-	61	61	(B)
Non-Expendable equipment	-	-	-	-	-	
Contractual	91,600	94,162	-	274	274	(C)
Operating costs	240,275	243,567	-	264	264	(D)
Other direct costs	-	-	-	-	-	
Indirect costs	<u>221,650</u>	<u>209,755</u>	<u>-</u>	<u>60</u>	<u>60</u>	(F)
Total costs incurred	\$ <u>1,887,370</u>	\$ <u>1,887,370</u>	\$ -	\$ 659	\$ 659	
Outstanding fund balance	\$ -	\$ -				

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
Grant No. S-PMWRA-16-GR-1052

Special Purpose Financial Statement

For the Period of October 1, 2016 through November 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u> <u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
S-PMWRA-16-GR-1052	\$ 1,057,218	\$ 1,057,218	\$ -	\$ -	\$ -	(4)
Total revenues	<u>1,057,218</u>	<u>1,057,218</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	423,096	404,267	219	-	219	(A)
Fringe benefits	150,431	148,408	23	-	23	(A)
Travel and DSA	179,347	196,486	-	-	-	
Training	1,960	325	-	-	-	
Expendable equipment	51,133	51,446	-	690	690	(B)
Non-Expendable equipment	11,200	10,059	-	-	-	
Contractual	20,400	22,415	-	-	-	
Operating costs	94,905	104,287	-	-	-	
Other direct costs	-	-	-	-	-	
Indirect costs	<u>124,746</u>	<u>119,525</u>	<u>24</u>	<u>69</u>	<u>93</u>	(F)
Total costs incurred	\$ 1,057,218	\$ 1,057,218	\$ 266	\$ 759	\$ 1,025	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

(Continued)

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
Grant No. S-PMWRA-16-GR-1056

Special Purpose Financial Statement

For the Period of October 1, 2016 through August 31, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Questioned Costs</u> <u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
S-PMWRA-16-GR-1056	\$ 1,040,832	\$ 1,040,832	\$ -	\$ -	\$ -	(4)
Total revenues	<u>1,040,832</u>	<u>1,040,832</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	412,098	416,637	935	-	935	(A)
Fringe benefits	149,674	151,115	92	-	92	(A)
Travel and DSA	178,601	189,960	-	-	-	
Training	1,960	692	-	-	-	
Expendable equipment	51,117	45,257	-	-	-	
Non-Expendable equipment	11,200	-	-	-	-	
Contractual	20,400	22,630	-	-	-	
Operating costs	92,687	97,193	-	-	-	
Other direct costs	-	-	-	-	-	
Indirect costs	<u>123,095</u>	<u>117,348</u>	<u>103</u>	<u>-</u>	<u>103</u>	(F)
Total costs incurred	\$ 1,040,832	\$ 1,040,832	\$ 1,130	\$ -	\$ 1,130	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

(Continued)

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
Grant No. S-PMWRA-17-GR-1084

Special Purpose Financial Statement

For the Period of September 28, 2017 through August 27, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
S-PMWRA-17-GR-1084	\$ 620,000	\$ 620,000	\$ -	\$ -	\$ -	(4)
Total revenues	<u>620,000</u>	<u>620,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	286,055	291,496	1,289	-	1,289	(A)
Fringe benefits	102,181	82,845	124	-	124	(A)
Travel and DSA	92,812	98,819	-	-	-	
Training	-	-	-	-	-	
Expendable equipment	-	-	-	-	-	
Non-Expendable equipment	-	-	-	-	-	
Contractual	26,201	28,666	-	-	-	
Operating costs	-	-	-	-	-	
Other direct costs	56,387	61,810	-	318	318	(E)
Indirect costs	<u>56,364</u>	<u>56,364</u>	<u>141</u>	<u>32</u>	<u>173</u>	(F)
Total costs incurred	\$ 620,000	\$ 620,000	\$ 1,554	\$ 350	\$ 1,904	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

(Continued)

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
Grant No. S-PMWRA-18-GR-0013

Special Purpose Financial Statement

For the Period of May 11, 2018 through May 31, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
S-PMWRA-18-GR-0013	\$ 1,771,000	\$ 1,771,000	\$ -	\$ -	\$ -	(4)
Total revenues	<u>1,771,000</u>	<u>1,771,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	718,014	722,318	260	-	260	(A)
Fringe benefits	250,166	230,844	26	-	26	(A)
Travel and DSA	261,544	256,139	-	-	-	
Training	-	-	-	-	-	
Expendable equipment	9,600	-	-	-	-	
Non-Expendable equipment	-	-	-	-	-	
Contractual	28,000	27,215	940	-	940	(C)
Operating costs	-	-	-	-	-	
Other direct costs	342,719	373,527	-	1,838	1,838	(E)
Indirect costs	<u>160,957</u>	<u>160,957</u>	<u>122</u>	<u>183</u>	<u>305</u>	(F)
Total costs incurred	\$ 1,771,000	\$ 1,771,000	\$ 1,348	\$ 2,021	\$ 3,369	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>				

(Continued)

Afghan Technical Consultants (ATC)

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

For the Period of December 2, 2015 through May 31, 2019

ATC's Responses to Audit Findings

Included on the following pages are Afghan Technical Consultants' responses received to the findings identified in this report.

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
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Office of Weapons Removal and Abatement (PM/WRA)
Supporting Various Community Based Demining Projects throughout Afghanistan

For the Period of December 2, 2015 through May 31, 2019

ATC's Responses to Audit Findings

Finding 2020-01: Vendor invoices and/or quotations charged to Grants were not addressed to ATC

Nature of Finding: Internal Control – Significant Deficiency

Condition: During our testing of costs incurred for the five Grants, we noted the following instances where vendor invoices and/or quotations were not specifically addressed to ATC but rather to an individual or not addressed to a specific entity. ATC explained that suppliers occasionally missed the organization name on the invoice or will write the name of the ATC personnel whom they were dealing with or forget to write ATC's name on the invoice. Addressing invoices and/or quotations to ATC allows ATC to determine if the invoices are allowable and chargeable to the Grants.

ATC Management Response to Finding 2020-01

The grants were implemented in remote areas and mostly out of cities, during project execution ATC faced many challenges, such as security threats from AGEs, logistical support from cities to the base camps and site operations locations was one of the main challengeable issues during the period.

Therefore, most small, and daily operations-related goods were purchased from local shops in the target communities who could not provide the standard invoices as required. In those remote areas it is extremely hard to find educated shopkeepers who can write properly the supplier's name on the invoices in English.

As the supporting documents were reviewed, it was found that suppliers had written the organization's name only on the mentioned vouchers related to invoices. Some supporting documents like quotations, the person with whom they were dealing or and for some instances they had written the name of our activity in the local language like MINE-PAKI (a word used for demining in local languages Dari and Pashto). However, all other supporting documents such as purchase requisition forms, goods receipt notes and similar related documents with signatures of purchase committee members and other authorized officials, contain the exact names, signatures and stamps from both parties.

ATC successfully achieved the project main goals and objectives as per the signed grants documents, but some administration and procurement rules were affected during the project implementation due to above mentioned security threats and lack of standard invoices in local market shops as well as uneducated shopkeepers, but the observations have been recorded as lessons learned. The ATC internal audit policies and financial controlling mechanism will be reviewed for further improvements. For point No -01 the details of supporting documents are as below.

(Continued)

Afghan Technical Consultants (ATC)

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

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ATC's Responses to Audit Findings

Books of Account Ref: JV 23/12-30-2015/16-G-1005
BPV-18 /01-23-2017/16- GR-1052

The Items purchased: demining equipment kit related Items such as tools, paint, rope, hook and battery for Mine-Detector an amount of \$ 61 by JV 23 & \$ 690 by BPV-18.

Books of Account Ref: JV 24/12-30-2017/16-GR-1005

The Items purchased: The utilities budget line related Items (Gas, Water, Electricity, Oil, etc.) an amount of \$274 by JV-24.

Books of Account Ref: JV 66/04-30-2016 / JV-68 06-30-2016 / JV-127 09-30-2016/16-GR-1005

The Items purchased: The budget Items lines such as supplies and vehicle maintenance covers the below number of invoices. An amount of \$264.

- 1- Invoice from "Insaaf General Store" for AFN 1,250
- 2- Invoice of "Haji Wali & Bilal" for AFN 1,400
- 3- Invoice of "Tamim Seal Center" AFN 3,000
- 4- Invoice of "Majnoon Shah Faqirzada" AFN 300
- 5- "Sher Technical Workshop" Invoice for AFN 4,850
- 6- "Noor Muhammad Khanjari Ltd & Haji Shah Muhammad Spare Part Seller" Invoice for AFN 7,150

Books of Account Ref: JV 55/01-31-2018 / JV-85/ 04-30-2018 / JV-60/ 01-31-2018/ JV 89/05-31-2018/JV 13/ 11-30-2017/16-GR-1084

JV 118/11-30-2018/JV-119/ 11-30-2018/ JV-43/06-30-2018/JV 49/07-24-2018/JV 80/08-31-2018/ 16-GR-0013

The Items purchased: The budget Items lines such as fuel and lubricants for field Vehicles, vehicle maintenance, Stationery and field supplies covers the below number of invoices total amount GR-1084=**318.00 \$** and GR-0013= **1,261.00 \$**.

JV- 55: 1-Fuel Purchased requisition form is missing for invoice no 70 an amount of AFN 2,401.
The following Invoices were not on the name of ATC (Invoice No, Amount) (743-1,932, 950-1,470, 943-1,470, 979-1470, 957-1470, 951-1470, 944-1470, 952-1470, 956-1470)

JV-85: The invoice no. 213 for AFN 500

(Continued)

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
Five Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Supporting Various Community Based Demining Projects throughout Afghanistan

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ATC's Responses to Audit Findings

JV-60: The invoice for stationary purchase from "Shahr Biraq" amounting AFN 3,000

JV-89: 1-The invoice for stationary from "Asia Photocopy" amounting AFN 340
2-The invoice for stationary from "Asia Photocopy" amounting AFN 360
3-The invoice for stationary from "Asia Photocopy" amounting AFN 200

JV-13: The invoice for stationary from "Ulfat Photography" amounting AFN 1,260

JV-118: 1-Invoice from " Fuel Pump Station" for AFN 4,736
2-Invoice from " Fuel Pump Station" for AFN 7,973

JV-119: The invoice from "City Light Electric Store" for AFN 3,000

JV-43: The invoice from "Insta Telecom" for AFN 1,000

JV-49: The Invoice of " Vehicle Maintenance" \$1,032

JV-80: The invoice from "Abdul Saboor" for vehicle repair for AFN 500

Afghan Technical Consultants (ATC)

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ATC's Responses to Audit Findings

Finding 2020-02: Lack of adherence to procurement policy

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

Condition: A sample of 927 transactions valued at \$163,271 out of a population of 4,388 valued at \$435,336 was judgmentally selected from the Other Direct Costs category of the SPFS. During our testing to determine the allowability and support adequacy of these incurred costs, we noted that there was one instance where ATC did not receive the Director's approval on an "urgent" purchase of office stationery totaling \$573 as required by ATC's internal policy.

ATC Management Response to Finding 2020-02

The ATC procurement manual clearly explains that quotation shall be sought for the goods of value USD 501 and above for all procurement processes and the purchase committee shall prepare three RFQs and submit to qualified vendors to get the quotations. After receiving all quotations, the procurement officer will prepare the comparative statement to specify the best offer.

In this specific procurement, which is stationery items for teams in the project location from local market, it happened in emergency circumstances, the process has been explained by the purchase committee in separate sheets and attached with related invoice. In the explanation the purchase committee have written the process was affected due to mobilization of the team to remote districts and confirmed the emergency process of the said procurement.

However, all other supporting documents to this invoice such as PR, quotation, purchase order, delivery notes have been attached accordingly which contain the name of ATC and signatures from the purchase committee, site officer, the controller and ATC Director.

The issue is recorded as a lesson learned for future improvement for management of emergency procurements accordingly.

Books of Account Ref: JV -155/01-31-2019/18-GR-0013

The Items purchased: Stationery for project teams during movement to remote target area an amount of \$ 573 by JV 155.

(Continued)

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
Five Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Supporting Various Community Based Demining Projects throughout Afghanistan

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ATC's Responses to Audit Findings

Finding 2020-03: Costs claimed exceeded the approved budget rates

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

Condition: During our testing of Personnel and Contractual costs, we noted the following instances where ATC claimed rates that exceeded the authorized rate as approved in the applicable budget:

ATC Management Response to Finding 2020-03

The audited awards proposed budgets projected on average basis for support staff salary under the proposed cost centers to the project. The changes to the budget and any variance to main categories budget item lines less than 10% within a total project value does not require any approval from the donor.

Based on awards contract documents (Article No XIII. Prior Approval Requirements) and the email dated 4th February-2019 from Ms. Macy Johnson Grant Officer which is already shared for further clarifications. On the other hand, the projected average for budget salary portion applied, the payments are made more in some instances than the budget and similarly less than the budget in other instances.

Only the support staff were considered for these average payments due to unavailability of experienced and qualified candidates in the market to work in the target communities.

For the above-mentioned audit observation, all these budget lines for all grants are still underspent or less than 10% overspent. The stated observations are in calculating factors of the personnel line used while estimating budgeted expenses for the line. During practical execution of the project, it may vary according to the practical situation and requirements. We always try to follow the budgetary controls in sub-categories as well as calculating factors. However, most of the times while practically implementing the project, cost shifts happen among sub-categories and calculating factors of a budget line is inevitable. Also, its mentionable that the main categories which has been shown the status of variance among the grants shared with auditors, have remain unchanged.

(Continued)

Afghan Technical Consultants (ATC)

Financial Audit of Costs Incurred Under
Five Grants Awarded by Department of State, Bureau of Political-Military Affairs,
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Supporting Various Community Based Demining Projects throughout Afghanistan

For the Period of December 2, 2015 through May 31, 2019

ATC's Responses to Audit Findings

Finding 2020-04: ATC did not adhere to Afghanistan Tax Law

Nature of Finding: Non-Compliance

Condition: During our testing of the Contractual, Fringe Benefits, Operating, Indirect, and Other Direct Costs under SPFS line items totaling 3,129 samples, we noted 26 instances where ATC did not withhold taxes from supplier purchases as required by Afghanistan Tax Law. ATC explained that the issues were noticed by the Tax office while clearing the Annual Income Tax Returns of ATC for the 2016, 2017, 2018 tax years. ATC stated that the suppliers were contacted and had paid the related taxes along with any other fees due to the Afghan government to close the matter.

ATC Management Response to Finding 2020-04

The tax withholding from vendors still a challenge in Afghanistan, especially in the project locations which are implemented in remote areas where there is no awareness of tax obligations. Even in Kabul city we face the situation when the suppliers do not agree such tax payments. They even bargain and ask for additional costs to cover the government taxes.

'This issue was noticed by the Tax office while clearing the Annual Income Tax Return of ATC for the year 2016, 2017 and 2018. In consultation with the tax office, the said company was contacted and they paid their related taxes and other dues to the Government. The matter was closed, and tax clearance was issued to ATC for the years accordingly.

The tax withholding from vendors for the year 2016, 2017 and 2018 was challengeable issue for ATC during procurement process while much of them are solved and now ATC has a particularly good improvement for the tax deductions from suppliers as well as for payroll the finance system updated for tax deduction accordingly. The payments are made on time before due dates to Government through MTO. Meanwhile, the purchase committee has been trained to communicate with suppliers about the tax payment and make them understand that it is both sides obligation as per the Income Tax Law.

(Continued)

Afghan Technical Consultants (ATC)

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

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Auditor's Rebuttal to ATC's Responses to Audit Findings

ATC did not disagree nor agree with Findings 2020-01, 2020-02, 2020-03, and 2020-04, but provided a response to each finding. We have reviewed ATC's responses and provided the following rebuttals:

- (1) 2020-01: ATC did not disagree nor agree with the finding. ATC stated that the main goals and objectives of the projects were successfully achieved as per the signed Grants. However, it was acknowledged that administration and procurement rules were affected due to security threats and lack of standard invoices in local market shops as well as uneducated shopkeepers. ATC stated internal audit policies and financial controlling mechanism will be reviewed for further improvements and that the issues described have been recorded as lessons learned.

Auditor Rebuttal: ATC agrees that the invoices were not addressed to ATC and it remains imperative that ATC personnel work with vendors to include all pertinent attributes of an invoice to demonstrate the allowability and chargeability of the costs to a project. As such, our finding, classification of finding, and recommendation remain unchanged.

- (2) 2020-02: ATC did not disagree nor disagree with the finding. ATC stated that the internal procurement policy was followed. It was further stated that the emergency circumstance for the questioned procurement was documented by the purchase committee and the purchase committee explained that the process was affected due to mobilization of the team to remote districts, which confirmed the emergency process of the said procurement. ATC stated that the issue described has been recorded as a lesson learned.

Auditor Rebuttal: As described in the Condition section of the finding, there was a lack of approval by the Director for an "urgent" purchase. ATC's internal procurement policy relevant to this condition was cited in the Criteria section of the finding and specifically requires Director approval for such purchases. As such, our finding, classification of finding, and recommendation remain unchanged.

- (3) 2020-03: ATC did not disagree nor disagree with the finding. ATC stated that all budget lines for all Grants were underspent or less than 10% overspent. ATC further stated that the observations are in calculating factors of the personnel line used while estimating budgeted expenses for the line and that during practical execution of the project, it may vary according to the practical situation and requirements. ATC indicated that they always try to follow the budgetary controls in sub-categories as well as calculating factors; however, most of the times while practically implementing the project, cost shifts happen among sub-categories and calculating factors of a budget line is inevitable. ATC also mentioned that the main categories which have been shown in the status of variance among the grants shared, have remain unchanged.

Afghan Technical Consultants (ATC)

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

For the Period of December 2, 2015 through May 31, 2019

Auditor's Rebuttal to ATC's Responses to Audit Findings

Auditor Rebuttal: It was communicated to ATC that this particular finding is not in direct correlation with whether or not costs incurred under certain cost categories exceeded the 10% threshold. The finding states that ATC claimed certain salary position and rent rates that had exceeded the approved rates in the applicable budget. As cited in the Criteria section of the finding, ATC's policies and procedures and the applicable CFR requires that ATC should be paid in conformity with any limitations set forth in the Federal award as well as approved budget. As such, our finding, classification of finding, and recommendation remain unchanged.

- (4) 2020-04: ATC did not disagree nor agree with this finding. ATC stated the tax withholding from vendors for tax years 2016, 2017, and 2018 was challenging. ATC further stated that in consultation with the tax office, the appropriate vendor was contacted and that the related taxes and other dues owed to the Government were paid. ATC confirmed that the tax matters were closed, and tax clearance was issued to ATC for the years accordingly. Furthermore, it was stated that improved policies have been implemented to communicate and collect the tax obligation from suppliers.

Auditor Rebuttal: As ATC agrees that the appropriate taxes had not been withheld during the tax years in question and that the tax matters were subsequently resolved with Afghan tax department, our finding, classification of finding, and recommendations remain unchanged.

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