



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

May 16, 2023

The Honorable Charles E. Grassley
United States Senate
135 Hart Senate Office Building
Washington, DC 20510

Dear Senator Grassley:

At your request, my office has reviewed the State Department's May 1, 2023, letter to you in which State attempts to explain why it has failed to act on five SIGAR financial audits, including 12 of 14 open recommendations, that have been pending before State for more than 2 years. Unfortunately, in our opinion, State's letter does not portend action, but instead makes excuses for further delay. As explained below, State misrepresented to you the manner in which SIGAR conducts its audits and the qualifications of the firms engaged by SIGAR. Accordingly, we strongly disagree with State's unsupported claims and its continued attempts at obfuscation.

Every expenditure questioned by the reputable public accounting firms with whom we worked—firms that were vetted and approved by the GSA—was flagged because the auditees failed to provide evidence showing that costs charged to State complied with applicable federal requirements and the terms of the award agreement. These are well accepted criteria that are applicable across accounting standards. State should be concerned that it has yet to resolve more than \$30 million of the \$39.9 million in questioned costs in the five audits.

Public Accounting Firms Contracted by SIGAR are Fully Qualified and State Failed to Raise Any Concerns About Their Work During the Course of the Audits or in the Years Since Completion

State is claiming—for the first time in more than 11 years of SIGAR financial audits—that the independent audit firms we contracted lack sufficient knowledge of accounting standards. State is not only incorrect, but also reckless in taking this position without any evidence to support its belated claim.

SIGAR has been conducting financial audits since 2012. During this time, we have completed 45 financial audits of State funding that included \$11.4 million in questioned costs with which State agreed. All of the public accounting firms we engage are subject to a thorough vetting process before being selected. The firms are GSA-approved, which means, among other things, that they all have a satisfactory performance record, are qualified, and eligible to conduct the contracted work. In addition, SIGAR evaluates each prospective firm bidding on a given group of audits on several key factors, including administrative requirements, planned audit approach, and proposed project management and staffing plan. SIGAR competitively selects the independent accounting firms to conduct the financial audits and ensures that the audit work is performed in accordance with U.S. government auditing standards, as is the standard accepted practice throughout the oversight community.

For example, SIGAR contracted with Williams, Adley & Company—DC LLC to audit the Colombo Plan (SIGAR report 20-54-FA). State itself has used the exact same firm to conduct its own financial audits, for example, through State's Office of the Inspector General. In another example, SIGAR contracted with Crowe LLP to audit TigerSwan LLC (SIGAR report 20-48-FA). The U.S. Agency for International Development (USAID), the U.S. Army Corps of Engineers, the Department of Treasury's Office of the Inspector General, and the Department of Commerce have all used the same firm for their own financial audits. SIGAR's quality review process also includes careful review of the auditors' reports, including reviewing auditor workpapers.

State's hinting that responding to financial audits questioning costs that potentially did not comport with federal requirements and award obligations is a waste of time and "not the best use of our [State] limited resources," is a ridiculous claim. It ignores years of SIGAR's audit reports that have benefited State, auditees, and taxpayers, work that has brought transparency to internal control and process challenges, returned money to department coffers, and, most importantly, helped ensure U.S. taxpayer funds are not wasted, misspent, or stolen—something that we hope State believes is not a "waste of time."

SIGAR Responses to State Comments on Individual Financial Audits

SIGAR Report No. 20-04-FA: In March 2023, State finally addressed the first of three recommendations from the October 2019 report, resolving the issue of \$19,194 of questioned costs. To date, State has not produced any evidence or decision for the remaining two recommendations.

SIGAR Report No. 21-01-FA: SIGAR has engaged with State multiple times over more than 2 years to obtain evidence and close these recommendations, but we still have not received the necessary documentation to do so. Specifically, State has not provided documentation for Recommendation 1 explaining how State concluded the questioned costs were allocated according to 2 CFR 200. State has not provided SIGAR with, for example, documentation showing that the allocated hours were linked to specific cost objectives, consistently applied, quantifiable, verifiable, and applicable to all funding agencies.

Similarly, State has still not produced evidence and decisions for Recommendations 2 or 3.

SIGAR Report No. 21-07-FA: State has still not produced necessary evidence and decisions for Recommendations 1, 2, or 3.

State's assertion that the independent public accounting firms we engaged by SIGAR were "not well versed with grant rules and regulations applicable to foreign assistance funds" is simply untrue. Government auditing standards and SIGAR's rigorous process for selecting and supervising the firms ensures we hire the most highly qualified and best performing auditing and accounting firms—firms engaged by departments and agencies throughout the federal government to conduct similar work.

Furthermore, SIGAR and the named firms engaged with State officials throughout the audit process, including at the outset and conclusion. At no point during the process did State officials voice a single concern with the scope, approach, or standards proposed and used by SIGAR and the firms. Additionally, State never questioned the qualifications of the independent public accounting firms, firms that State itself has previously engaged to do its own audit work.

Finally, the auditors' findings for the three financial audits mentioned in State's May 1 letter (SIGAR 20-04-FA, 21-01-FA, and 21-07-FA) were communicated to the auditees and State during the SIGAR-hosted exit conferences. At no time during the exit conferences covering the three audits did either State or the auditee raise any comments or concerns regarding grant rules or regulations applied in the audits. State raising such objections 2 or 3 years after the audits' publications—and after State was called out for failing to take any action to recover questioned costs—is inappropriate and unprofessional.

SIGAR Report No. 20-54-FA: State claims that it "has been actively working to resolve SIGAR's recommendations since they were issued in 2020," and also claims that "on January 15, 2021, INL [State's Bureau of International Narcotics and Law Enforcement Affairs] communicated to SIGAR that the standards used by [the independent public accounting firms] ... were incorrect and should not have been applied to an international organization such as the Colombo Plan." However, State did not provide a copy of any such communication with its letter. Moreover, State did not raise the issue during the exit conference at the conclusion of the audit. (We maintain documentation of the exit conference and at no point did anyone raise this issue for discussion.)

Contrary to State's opinion, any organization to which State provides U.S. taxpayer funds for reconstruction in Afghanistan is subject to SIGAR audits and investigations to ensure that the funds are used as intended. To that end, organizations working with State, in this case the Colombo Plan, must provide documentation sufficient to show prior approvals or authorizations, and for what, when, where, and how much funding was used for allowable and allocable purposes.

State now claims that the Colombo Plan possesses documentation for the questioned costs, and that "this documentation was originally offered to SIGAR at the time of the audit, but SIGAR's auditors refused to examine it." State's assertion is simply false.

SIGAR's auditors extended flexibility and time to get the necessary information. In fact, SIGAR and the independent public accounting firms viewed the information alluded to by State in its letter, but the documents did not provide the necessary evidence to close recommendations. Auditors from the contracted public accounting firm visited the Colombo Plan's headquarters in Sri Lanka and its field office in Afghanistan to review the documents on November 4, 2019, through November 8, 2019, and on December 8 through December 12, 2019, respectively. The auditors reviewed additional documentation offered by the Colombo Plan but found it inadequate. SIGAR and its independent public accounting firm then extended time for the Colombo Plan to locate and provide required documentation by delaying the exit conference to January 2020 instead of November 2019. During that exit conference, the auditors told both State and the Colombo Plan that as a result of a lack of audit documentation, the audit report would issue a disclaimer of opinion on the Special Purpose Financial Statement.

As is standard practice after an oversight body identifies questioned costs, it is the responsibility of contracting officials—those charged with approving costs per federal requirements and the terms of an agreement—to work with auditees to review evidence and determine whether the documentation is sufficient to support the costs charged. In this case, State must decide whether the Colombo Plan provided it with the evidence necessary to support charges because the Colombo Plan failed to provide SIGAR auditors with sufficient evidence during our audit.

SIGAR received correspondence from INL's Executive Director, dated September 30, 2022, stating, "INL funded training for the Colombo Plan on various accounting and procedural techniques upon completion of audit. The Colombo Plan retains control of documentation that SIGAR was unable to review during the initial audit which addresses the alleged \$23 million in questionable costs. INL advises that all the corrections and the majority of the justice programming through Colombo Plan has been closed since the completion of the audit." To date, this is the only correspondence SIGAR has received from State specifically addressing the audit recommendations. SIGAR responded to INL on October 11, 2022, stating that INL's September 30, 2022, letter was not sufficient to close any of the Colombo Plan audit's three recommendations. SIGAR has since followed up on multiple occasions with State regarding these audit recommendations, but State has refused to take appropriate action.

SIGAR Report No. 20-39-FA: Regarding SIGAR audit Recommendation 1, State officials agreed with SIGAR's findings, determined that \$191,001 was unallowable, and noted Alutiiq had 30 days from the date of the settlement agreement (April 13, 2023) to pay State. State provided SIGAR proof of payment on May 11, 2023.

SIGAR Report No. 20-48-FA: Regarding SIGAR audit Recommendation 1, State claims that it has not been able to conduct the necessary work to address the recommendations, noting, "Having only recently obtained the information necessary to complete the analysis, the Department is actively conducting the review and will provide SIGAR records of correspondence with implementing partner TigerSwan LLC and documentation showing that all matters have been addressed."

State's comments are inaccurate and disingenuous. State is referring to a February 28, 2023, letter from SIGAR; however, this was not the first time we provided State with requested information. On May 17, 2021—nearly 2 years prior to the letter mentioned by State—SIGAR provided requested information to State. Subsequently, State made an additional inquiry in June 2021 regarding questioned costs supporting documentation, vendors name, and voucher numbers.

SIGAR's audit reports stand on their own and it is State's responsibility to work with its contract implementer to determine if the questioned costs are supported; questioned costs generally occur because the auditee receiving State funds failed to provide us with supporting documentation during the audit. Nevertheless, on February 28, 2023, SIGAR obtained additional information from the independent public accounting firms, drafted responses, and shared them with State.

On May 4, 2023, State responded by email noting it has decided to allow the \$3,850,658 in TigerSwan LLC questioned costs. However, the explanation and information State provided did not cover all the questioned costs. As a result, we determined the information was not sufficient to close the recommendation. We also take issue with State's claim that, "To prevent further taxpayer expense on this review, A/OPE [State's Office of the Procurement Executive] recommends not sustaining [agreeing to]..." the almost \$4 million in questioned costs directed to TigerSwan LLC.

Ironically, by taking this position, State appears to be refusing to consider if any contractor money should be returned to the Department and the taxpayer, even though State still works with and provides funds to this contractor for other work. SIGAR believes that the facts and evidence show it is in State's and U.S. taxpayers' best interests to ensure all the contractor's outstanding deficiencies be resolved.

Thank you for allowing us the opportunity to set the record straight and respond to State's misleading comments.

Sincerely,



John F. Sopko
Special Inspector General
for Afghanistan Reconstruction