

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 22-36 Financial Audit

USAID's Catalyzing Afghan Agricultural
Innovation Program: Audit of Costs Incurred by
Virginia Polytechnic Institute and State University



**AUGUST
2022**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On May 20, 2018, the U.S. Agency for International Development's (USAID) Mission to Afghanistan awarded a 5-year, \$8,000,000 associate cooperative agreement to Virginia Polytechnic Institute and State University (VA Tech) to implement the Catalyzing Afghan Agricultural Innovation program. The program's purpose was to improve capacity in agricultural education and promote new roles for educators and researchers by building their relationships with the private sector, among other activities. USAID modified the agreement seven times. The total award amount did not change and the period of performance's end date was reduced from May 27, 2023, to February 28, 2022.

SIGAR's financial audit, performed by Castro & Company (Castro), reviewed \$1,787,503 in costs incurred under the agreement from January 1, 2020, through May 27, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in VA Tech's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether VA Tech has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of VA Tech's Special Purpose Financial Statement (SPFS). See Castro'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 work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Castro did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

August 2022

USAID's Catalyzing Afghan Agricultural Innovation Program: Audit of Costs Incurred by Virginia Polytechnic Institute and State University

SIGAR 22-36-FA

WHAT SIGAR FOUND

Castro did not find any material weaknesses or significant deficiencies in VA Tech's internal controls, or any instances of noncompliance with the terms and conditions of the associate cooperative agreement. Accordingly, the auditors did not identify any questioned costs.

Castro identified one prior audit report that was relevant to VA Tech's associate cooperative agreement. The report had two findings that could have a material effect on the SPFS. Castro performed follow-up procedures and concluded VA Tech took adequate corrective action on both of the findings.

Castro issued an unmodified opinion on VA Tech's SPFS, noting that it presents fairly, in all material respects, revenue earned and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, Castro did not report any findings. Therefore, SIGAR is not making any recommendations.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

August 18, 2022

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

Mr. Peter Duffy
Mission Director, U.S. Agency for International Development

We contracted with Castro & Company (Castro) to audit the costs incurred by Virginia Polytechnic Institute and State University (VA Tech) under a U.S. Agency for International Development (USAID) associate cooperative agreement to implement the Catalyzing Afghan Agricultural Innovation program.¹ The program's purpose was to improve relevance and capacity in agricultural education, and promote new roles for educators and researchers. Castro reviewed \$1,787,503 in costs charged to the associate cooperative agreement from January 1, 2020, through May 27, 2021. Our contract with Castro 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, Castro did not report any findings. Therefore, SIGAR is not making any recommendations.

Castro discusses the results of the audit in detail in the attached report. We reviewed Castro's report and related documentation. We also inquired about Castro's conclusions and its compliance with applicable standards. Our review, as differentiated from an audit of the financial statements 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 VA Tech's Special Purpose Financial Statement, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Castro is responsible for the attached auditor's report dated May 6, 2022, and the conclusions expressed therein. However, our review disclosed no instances where Castro & Company did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-225)

¹ The cooperative agreement number is 72030618LA00002.



**Virginia Polytechnic Institute and State University
Financial Audit of Costs Incurred
For Associate Cooperative Agreement No. 72030618LA00002
For the period of January 1, 2020 through May 27, 2021
(With Independent Auditor's Report Theron)**

June 3, 2022

Virginia Polytechnic Institute and State University
Financial Audit of Costs Incurred
Associate Cooperative Agreement No. 72030618LA00002
For the Period of January 1, 2020 through May 27, 2021

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Transmittal Letter

June 3, 2022

To the Board of Directors and Management of Virginia Polytechnic Institute and State University
300 Turner Street Northwest, Suite 4400
Blacksburg, VA 24060

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during our audit of the Special Purpose Financial Statement (the Statement) applicable to Virginia Polytechnic Institute and State University's (VA Tech) Associate Cooperative Agreement No. 72030618LA00002 with the United States Agency for International Development (USAID), funding the Catalyzing Afghan Agricultural Innovation program (herein referred to as "CAAI" or "program") for the period of January 1, 2020 through May 27, 2021.

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

When preparing our report, we considered comments, feedback, and interpretations of VA Tech, USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR), provided both in writing and orally throughout the audit planning and fieldwork phases. There were no findings or questioned costs identified as a result of our audit.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of VA Tech's associate cooperative agreement.

Sincerely,



Millie Seijo, CPA, Partner
Castro & Company, LLC

Virginia Polytechnic Institute and State University
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Associate Cooperative Agreement No. 72030618LA00002
For the Period of January 1, 2020 through May 27, 2021

Summary

Background

On May 20, 2018, the United States Agency for International Development (USAID) awarded Associate Cooperative Agreement (Associate Cooperative Agreement No. 72030618LA00002) to the Virginia Polytechnic Institute and State University (VA Tech) for the Catalyzing Afghan Agricultural Innovation program (herein referred to as “CAAI” or “program”). The purpose of CAAI was to improve relevance and capacity in agricultural education and promote new roles for educators and researchers by building relationships among them and with the private sector. The period of performance for this award was initially five years, from May 28, 2018 through May 27, 2023, and the total estimated amount for the period was \$8,000,000. The cooperative agreement was modified seven times. Two modifications were issued after the audit period changing the cooperative agreement’s period of performance end date from May 27, 2023 to February 28, 2022 to reflect the current situation in Afghanistan. The agreement amount remained unchanged.

The audit’s scope included activity within the period of January 1, 2020 through May 27, 2021. Within the period under audit, VA Tech reported \$1,650,961 in total revenue and \$1,787,503 in costs incurred under the cooperative agreement.

Work Performed

Castro & Company, LLC (Castro) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of VA Tech’s Special Purpose Financial Statement (the Statement) for costs incurred under Associate Cooperative Agreement No. 72030618LA00002 for the period of January 1, 2020 through May 27, 2021.

Objectives Defined by SIGAR

The following audit objectives were defined by SIGAR within the Statement of Work (SOW) for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan:

Audit Objective 1 – Internal Controls

Evaluate and obtain a sufficient understanding of VA Tech’s internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 2 – Special Purpose Financial Statement

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

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Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of our work included performing a financial audit of costs incurred of VA Tech's Associate Cooperative Agreement No. 72030618LA00002 for the period of January 1, 2020 through May 27, 2021. The audit was limited to those matters and procedures pertinent to the cooperative agreement that have a direct and material effect on the Statement. The audit also included an evaluation of the presentation, content, and underlying records of the Statement. Further, the audit included reviewing the financial records that support the Statement to determine if there were material misstatements and if the Statement was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Administrative oversight, controls, and fraud risk assessment;
- Budgetary Compliance;
- Methodology for allocation of Indirect Cost Rates;
- Disbursements (payroll and non-payroll);
- Procurement;
- Inventory Management;
- Reporting; and
- Compliance

Our audit was performed in accordance with United States Generally Accepted Government Auditing Standards (GAGAS or the "Yellow Book") issued by the Comptroller General of the U.S. Government Accountability Office (GAO) (2018 Revision).

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 via conference call on November 2, 2021. Participants included representatives from Castro, VA Tech, SIGAR, and USAID. The purpose of the entrance

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conference was to discuss the 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:

1. Obtained an understanding of VA Tech;
2. Reviewed the cooperative agreement and modifications;
3. Reviewed specific USAID regulations that are applicable to the cooperative agreement;
4. Performed a financial reconciliation; and
5. Selected samples based on our sampling techniques as outlined in our approved Audit Plan.

Audit Objective 1 – Internal Controls

Castro obtained and reviewed VA Tech’s policies and procedures to gain an understanding of the system of internal control established by VA Tech during the period of performance. Additionally, Castro conducted interviews with management to obtain an understanding of the processes that were in place during the period of performance. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. Castro confirmed internal controls identified by VA Tech and performed testing over certain key controls to understand if they were implemented as designed.

Audit Objective 2 – Special Purpose Financial Statement

Transactions were selected from the general ledger detail supporting the Statement and were tested to determine if the transactions were recorded accurately and consistent with the agreement terms and conditions; were incurred within the period covered by the Statement; were appropriately allocated to the agreement; and were adequately supported.

Audit Objective 3 – Compliance

Castro reviewed the cooperative agreement issued by USAID to identify criteria against which to test the Statement. Using a combination of random and judgmental sampling techniques, Castro selected transactions, vouchers for payment submitted to USAID, procurements, government property, and reports for testing. Supporting documentation was provided by VA Tech and evaluated to assess VA Tech’s compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the Negotiated Indirect Cost Rate Agreement issued by USAID.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Castro inquired of VA Tech, SIGAR, and USAID representatives regarding prior audits, reviews, or assessments that were pertinent to the audit scope. Castro also conducted an independent search

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of publicly available information to identify audit and review reports. As a result, we identified one prior report. Castro reviewed the prior audit report to ascertain whether findings may be direct and material to the audit objectives. In instances where findings were determined to be potentially material to the audit objectives, Castro reviewed the prior audit report to determine whether corrective action from any of the prior findings and recommendations was denoted as unresolved, inadequate, or otherwise incomplete such that additional follow-up is necessary. Due to VA Tech considering the prior year findings resolved, Castro obtained and reviewed the AET service agreement which included the payment schedule, detailed budget, and scope of work describing the services to be provided. Additionally, we confirmed the reconciliation of advanced funds was performed, and documentation was provided to support the actual costs incurred by AET. Furthermore, we examined the general ledger to identify the employee exceeding the NTA Salary Scale and Guideline. We confirmed the employee not meeting the minimum requirements above was no longer assigned/charging to the program. See **Schedule I: Summary Schedule of Prior Audit, Review, and Assessment of Findings**.

Exit Conference

An exit conference was held on April 29, 2022 via a conference call. Participants included representatives from Castro, VA Tech, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Castro issued an unmodified opinion on the Statement, noting the Statement presents fairly, in all material respects, revenues earned, costs incurred, and balance for the period audited. There were no findings or questioned costs identified as a result of the audit.

As part of obtaining reasonable assurance about whether the Statement is free from material misstatement, we considered VA Tech's internal control over financial reporting and performed tests of those controls. The results of our tests disclosed no internal control weaknesses required to be reported under *Government Auditing Standards*. See Independent Auditor's Report on Internal Control on page 11.

As part of obtaining reasonable assurance about whether the Statement is free from material misstatement, we performed tests of its compliance with certain provisions of the agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the Statement amounts. The results of our tests disclosed no instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 13.

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.

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Castro also requested copies of prior audits, reviews, and evaluations pertinent to VA Tech's financial performance under this cooperative agreement. The prior audit referenced above contained audit findings and recommendations that were direct and material to the award. Within the report, Castro identified two findings that were subject to review. Castro conducted procedures to determine whether adequate corrective action had been taken on the two findings. Castro concluded that VA Tech had taken adequate corrective action on the two the prior year findings and we did not note similar issues during our audit. See **Schedule I: Summary Schedule of Prior Audit, Review, and Assessment of Findings**.

Summary of Management Comments

Written management responses were not obtained because no reportable findings were identified during the course of the audit.

Independent Auditor's Report on the Special Purpose Financial Statement

To the Board of Directors and Management of Virginia Polytechnic Institute and State University
300 Turner Street Northwest, Suite 4400
Blacksburg, VA 24060

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement (the Statement) of Virginia Polytechnic Institute and State University (VA Tech), and the related notes to the Statement, with respect to the Catalyzing Afghan Agricultural Innovation program (herein referred to as "CAAI" or "program") funded by the United States Agency for International Development (USAID) Associate Cooperative Agreement No. 72030618LA00002 for the period of January 1, 2020 through May 27, 2021.

Management's Responsibility for the Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and terms and conditions of Associate Cooperative Agreement No. 72030618LA00002. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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 Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 Statement.

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

Opinion

In our opinion, the Statement referred to above pertaining to Associate Cooperative Agreement No. 72030618LA00002 presents fairly, in all material respects, the revenues earned, costs incurred, and balance for the indicated period in accordance with the basis of presentation and accounting described in Notes 1, 2, 3, and 4.

Basis of Presentation and Accounting

We draw attention to Notes 1, 2, 3, and 4 to the Statement, which describe the basis of presentation and accounting. The Statement is prepared in the format required by SIGAR and presents those amounts as permitted under the terms of USAID Associate Cooperative Agreement No. 72030618LA00002, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the agreement referred to above. Our opinion is not modified with respect to this matter.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 6, 2022, on our consideration of VA Tech's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, awards, 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 VA Tech's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of VA Tech, USAID, and SIGAR. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

A handwritten signature in dark ink that reads "Castro & Company, LLC". The signature is written in a cursive, flowing style.

Alexandria, VA
May 6, 2022

Virginia Polytechnic Institute and State University
Financial Audit of Costs Incurred
Associate Cooperative Agreement No. 72030618LA00002
For the Period of January 1, 2020 through May 27, 2021

Special Purpose Financial Statement¹

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Total</u>	<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
Revenues						
USAID Contribution	8,000,000	1,650,961	-	-	-	
Program Income	-	-	-	-	-	
Total Revenue	\$ 8,000,000	\$ 1,650,961	\$ -	\$ -	\$ -	2
Costs Incurred						
Fringe Benefits	363,662	122,400	-	-	-	
Salaries	925,213	364,200	-	-	-	
Contractual Services	1,983,667	50,000	-	-	-	
Contractual - LLC Reclassification	3,078,528	861,196	-	-	-	
Travel	256,664	26,906	-	-	-	
Other Direct Costs	110,562	(925)	-	-	-	
Total Direct Costs	\$ 6,718,296	\$ 1,423,777	\$ -	\$ -	\$ -	3
Indirect Expenditures	1,281,704	363,726	-	-	-	
Total Costs Incurred	\$ 8,000,000	\$ 1,787,503	\$ -	\$ -	\$ -	
Outstanding Balance	\$ -	\$ (136,542)²				4

¹ The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

² The difference is due to VA Tech incurring more costs than what it has withdrawn from the agreement funding. VA Tech has a letter of credit arrangement where it can withdraw funds as needed.

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Notes to the Special Purpose Financial Statement

Note 1. Summary of Significant Accounting Policies

Basis of Accounting

VA Tech uses Banner financial system, as the university's official Accounting system. In Banner, the grants are recorded with fund numbers and account code categories for revenue and expenditures. As expenditures are incurred at the departmental level these are recorded daily in the associated funds and account codes based on the expenditures incurred in Banner. The drawdowns for the expense reimbursements are recorded as revenues in the funds. The accumulation of the revenue and expense generates the fund accountability statement. The fund accountability statement has been prepared on a cash basis of accounting. Revenue represents cash received during the period. Costs in the fund accountability statement corresponds to funds disbursed during the period. The designated Post Award associate, in the Office of Sponsored programs reviews the expenditures charged to the grant to ensure they are allowable, allocable, consistent and reasonable per the sponsor requirements, federal regulations, and university policies and procedures. The Post Award associate prepares the SF425 on the quarterly basis. The University's Controllers Office prepares the financial Statements annually. These financial statements are audited annually by the Virginia Auditor of Public Accounts (APA) at year end.

The Statement revenue corresponds to flow of funds received from USAID.

Expenditures of the Statement corresponds to funds disbursed in payment.

Basis of Preparation of the Budget

Budget of the program presented within the Statement has been prepared in accordance with the budget approved by USAID. This budget is expressed in U.S. dollars.

Foreign Currency Conversion Method

The Statement provided to the auditor by the recipient is stated in U.S. dollars. Expenses in Afghanistan Afghani are translated at the exchange rates in effect when the payment is made.

Note 2. Revenues

This grant is on a cost reimbursable basis. A wire request is sent to USAID for the expenses incurred. Revenue is received for the expenses incurred.

Note 3. Costs Incurred by Budget Category

All expenses are incurred based on the budget category. Office of Sponsored Programs, Post Award ensures that only allowable expenses are charged to the grant per the budget requirements.

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Note 4. 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 revenues have been earned that exceed the costs incurred or charged to the agreement, and an amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. The deficit balance of \$136,542 is due to excess of expenditures over revenues during the reporting period.

Note 5. Program Status

The VA Tech cooperative agreement was active as of May 27, 2021. The cooperative agreement was terminated effective February 28, 2022.

Note 6. Subsequent Events

VA Tech has performed an analysis of the activities and transactions subsequent to January 1, 2020 through May 27, 2021 covered by the Statement. Management has performed their analysis through May 6, 2022 the date through which the Statement was available to be issued. Due to the external event in Afghanistan during August 2021, in which the Taliban replaced the former government, the closure of the USAID Mission in Kabul, VA Tech's ability to implement the program activities during this time was materially impacted. As a result, effective February 22, 2022, the cooperative agreement's period of performance end date was changed from May 27, 2023 to February 28, 2022. VA Tech does not believe this event impacts the amounts and disclosures in the Statement for the audit period of January 1, 2020 through May 27, 2021.

Independent Auditor's Report on Internal Control

To the Board of Directors and Management of Virginia Polytechnic Institute and State University
300 Turner Street Northwest, Suite 4400
Blacksburg, VA 24060

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

We have audited, the Special Purpose Financial Statement (the Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Virginia Polytechnic Institute and State University (VA Tech) under United States Agency for International Development (USAID) Associate Cooperative Agreement No. 72030618LA00002, Catalyzing Afghan Agricultural Innovation program (herein referred to as "CAAI" or "program"), for the period of January 1, 2020 through May 27, 2021. We have issued our report thereon dated May 6, 2022 with an unmodified opinion.

Internal Control over Financial Reporting

VA Tech's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Notes 1, 2, 3, and 4 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement, we considered VA Tech's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of VA Tech's internal control. Accordingly, we do not express an opinion on the effectiveness of VA Tech's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the VA Tech Statement 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 second 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 or significant deficiencies. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of VA Tech, the USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Castro & Company, LLC

Alexandria, VA
May 6, 2022

Independent Auditor's Report on Compliance

To the Board of Directors and Management of Virginia Polytechnic Institute and State University
300 Turner Street Northwest, Suite 4400
Blacksburg, VA 24060

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

We have audited, the Special Purpose Financial Statement (the Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Virginia Polytechnic Institute and State University (VA Tech) under United States Agency for International Development (USAID) Associate Cooperative Agreement No. 72030618LA00002, Catalyzing Afghan Agricultural Innovation program (herein referred to as "CAAI" or "program"), for the period of January 1, 2020 through May 27, 2021. We have issued our report thereon dated May 6, 2022 with an unmodified opinion.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement is the responsibility of the management of VA Tech.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether VA Tech's Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and the cooperative agreement, noncompliance with which could have a direct and material effect on the determination of the 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 did not disclose any instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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

Restriction on Use

This report is intended for the information of VA Tech, the USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Castro & Company, LLC

Alexandria, VA

May 6, 2022

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Cooperative Agreement No. 72030618LA00002
For the Period of January 1, 2020 through May 27, 2021

Schedule I – Summary Schedule of Prior Audit, Review, and Assessment of Findings

Castro obtained and reviewed one prior audit report issued by CliftonLarsonAllen LLP. The report contained findings and recommendations. We assessed the findings to ascertain whether the matters reported in the findings were direct and material to the Special Purpose Financial Statement (the Statement) or other financial information significant to the audit objectives. In addition, we reviewed the auditors' comments regarding the status of prior audit findings.

The report reviewed by Castro is listed below:

1. Financial audit of costs incurred of the USAID resources managed by Virginia Polytechnic Institute and State University under USAID's Catalyzing Afghan Agricultural Innovation Program in Afghanistan, Cooperative Agreement 306-72030618LA00002 for the period May 28, 2018 to December 31, 2019.

Per our review of the report, Castro identified two prior findings that required follow-up on corrective action.

Report: Financial audit of costs incurred of the USAID resources managed by Virginia Polytechnic Institute and State University under USAID's Catalyzing Afghan Agricultural Innovation Program in Afghanistan, Cooperative Agreement 306-72030618LA00002 for the period May 28, 2018 to December 31, 2019.

Finding 1: On August 30, 2018, VA Tech signed a Service Agreement with AET Global, LLC (AET) a wholly owned subsidiary of Virginia Tech Foundation, Inc. AET provides management services to VT managing the CAAI project funded by USAID. On the same date, VA Tech and AET signed a separate Management Agreement for VA Tech to provide key personnel to AET in support of implementing the CAAI project in Afghanistan. The report noted the following:

1. VA Tech considers the service agreement with AET to be external party relations, but the agreement does not show a contract price amount, payment schedules, detailed budget or Scope of Work describing the services to be provided by AET.
2. The Payment term of the service agreement states that "AET will provide the Services on Cost- Reimbursable basis." However, three instances were noted where VA Tech paid AET cash advances (pre-payments). These prepayments were charged to the project ledger as expenses without reconciliation of these advance funds and the supporting documents for the actual cost incurred by AET. These amounts were reported as unsupported questioned costs.
3. There was no budget amount or salary rates included in the agreement for the VA Tech personnel supporting AET under the Management Agreement.

Status: During our review of disbursements, we obtained and examined the AET service agreement documentation. As a result of our review, we noted that the service agreement included a payment schedule, detailed budget, and scope of work describing the services to be provided by AET. Additionally, as part of our disbursement testing, we confirmed that reconciliation of

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advanced funds was performed, and documentation was provided to support the actual costs incurred by AET. As a result of our testing, we did not identify any similar issues. Castro determined that this issue was not a repeat condition for the program under audit during the period of January 1, 2020 through May 27, 2021.

Finding 2: For Afghan national employees hired by VA Tech, the salary amount for one employee exceeded the appropriate salary scale per the National Technical Assistance (NTA) Salary Scale and Guideline. Based on the NTA Salary Scale and Guideline, the Technical Specialist positions (equivalent to Gender & Communication Specialist hired by VA Tech) is classified under Grade C. As per project budget approved by USAID, VA Tech budgeted for a Grade C for this Gender & Communication Specialist. However, VA Tech paid these employees according to the Grade B pay scale instead of Grade C, as suggested by NTA Salary Scale and Guideline and proposed in the project budget.

In addition, the minimum education requirement for Grade A to E is a bachelor's degree. The Gender & Communication Specialist's highest educational certificate provided was a high school diploma. Therefore, the Gender & Communication Specialist did not meet the minimum requirement (Bachelor's degree) for the Grade B position.

The maximum salary allowable for each employee based on the NTA Salary Guideline was compared to the actual salary paid to each employee and the salaries exceeding the maximum amount allowable per the NTA Salary Scale and Guideline was questioned.

Status: During our review of payroll expenses within the general ledger and inquiry of VA Tech, we confirmed that the employee not meeting the minimum requirements above was no longer assigned/charging to the program. In addition, during our payroll procedures, we did not identify instances of Afghan employees exceeding the salary scale per the NTA Salary Scale and Guideline. As a result, Castro determined that this issue was not a repeat condition for the program under audit during the period of January 1, 2020 through May 27, 2021.

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SIGAR's Mission

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