

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 22-19 Financial Audit**

## USAID's Afghanistan's Measure for Accountability and Transparency Project: Audit of Costs Incurred by Management Systems International Inc.

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



APRIL  
2022

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On August 23, 2017, the U.S. Agency for International Development (USAID) awarded a \$31,986,588 cost-plus-fixed-fee contract to Management Systems International Inc. (MSI) to support Afghanistan's Measure for Accountability and Transparency project. The objective of the project was to reduce and prevent corruption in Afghan government public services by working with Afghan government agencies, developing corruption risk mitigation plans, and other activities. USAID modified the contract ten times; the total approved budget did not change, but the final modification changed the period of performance to end on March 11, 2022. The period of performance ended after the auditors completed their fieldwork, and it is therefore not mentioned in the report.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed ██████████ in costs charged to the contract from October 1, 2018, through August 22, 2020. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in MSI's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether MSI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of MSI'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 work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

April 2022

USAID's Afghanistan's Measure for Accountability and Transparency  
Project: Audit of Costs Incurred by Management Systems International Inc.

### SIGAR 22-19-FA

### WHAT SIGAR FOUND

Conrad identified four significant deficiencies in MSI's internal controls and four instances of noncompliance with the terms of the contract. For example, Conrad tested a judgmental sample of 136 timesheets to determine if the costs incurred for salaries under the program were adequately supported and properly approved. The auditors found that in 47 instances, the timesheets were approved by the supervisors prior to the pay period ending. However, MSI did not provide evidence to demonstrate that the estimated hours correctly reflected the actual work performed. Conrad also tested 74 other direct costs to determine if the costs incurred were allowable and adequately supported. As a result, the auditors identified five instances in which MSI paid stipends, and charged USAID, for training costs even though the employees did not attend the training.

Because of the significant deficiencies in internal controls and instances of noncompliance, Conrad identified \$22,945 in total questioned costs, consisting of \$21,720 in unsupported costs—costs not supported with adequate documentation or that do not have required prior approval—and \$1,225 in ineligible costs—costs prohibited by the contract and applicable laws and regulations.

| Category           | Ineligible     | Unsupported     | Total Questioned |
|--------------------|----------------|-----------------|------------------|
| Direct Costs       | \$1,105        | \$13,813        | \$14,918         |
| Indirect Costs     | \$120          | \$7,907         | \$8,027          |
| <b>Total Costs</b> | <b>\$1,225</b> | <b>\$21,720</b> | <b>\$22,945</b>  |

Conrad identified five prior audit reports that were relevant to MSI's contract. The reports had eleven findings that could have a material effect on the SPFS and other financial data significant to this audit's objectives. Conrad performed follow-up procedures and concluded that MSI took adequate correction action on seven of the eleven findings. Conrad found that MSI had not taken corrective action on four findings and the issues were repeated and identified again in this audit.

Conrad issued an unmodified opinion on MSI's SPFS, noting 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 contracting officer at USAID:

1. Determine the allowability of and recover, as appropriate, \$22,945 in questioned costs identified in the report.
2. Advise MSI to address the report's four internal control findings.
3. Advise MSI to address the report's four noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

April 19, 2022

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

Mr. Peter Duffy  
USAID Mission Director for Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Management Systems International Inc. (MSI) under a contract from the U.S. Agency for International Development (USAID) to support Afghanistan's Measure for Accountability and Transparency project.<sup>1</sup> The objective of the project was to reduce and prevent corruption in Afghan government public services by working with Afghan government agencies, developing corruption risk mitigation plans, and other activities. Conrad reviewed ██████████ in costs charged to the contract from October 1, 2018, through August 22, 2020. 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 contracting officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$22,945 in questioned costs identified in the report.**
- 2. Advise MSI to address the report's four internal control findings.**
- 3. Advise MSI to address the report's four noncompliance findings.**

Conrad discusses the results of the audit 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 MSI's Special Purpose Financial Statement. We also express no opinion on the effectiveness of MSI'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.

Please provide documentation related to corrective actions taken and/or target dates for completion for the recommendations to [sigar.pentagon.audits.mbx.recommendation-followup@mail.mil](mailto: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-210)

<sup>1</sup> The contract number is AID-306-H-17-00003.

**Management Systems International, Inc.**

Financial Audit of Costs Incurred Under  
Contract Number AID-306-H-17-00003 Awarded by the  
United States Agency for International Development/Afghanistan (“USAID”), for the  
Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project

For the Period of October 1, 2018 through August 22, 2020

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March 17, 2022

Board of Directors  
Management Systems International, Inc.  
Arlington, Virginia, USA

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 Management Systems International, Inc.'s ("MSI") Special Purpose Financial Statement ("SPFS") for costs incurred under Contract No. AID-306-H-17-00003 ("Contract" or "Award") awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the Afghanistan's Measure for Accountability and Transparency ("AMANAT") project, for the period of October 1, 2018 through August 22, 2020.

On December 22, 2021, we provided SIGAR with a draft report reflecting our audit procedures and results. MSI received a copy of the report on February 24, 2022, 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 MSI. MSI'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 this Contract.

Sincerely,

A handwritten signature in blue ink, appearing to read "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

## Management Systems International, Inc.

Financial Audit of Costs Incurred Under  
Contract No. AID-306-H-17-00003 Awarded by the  
United States Agency for International Development/Afghanistan (“USAID”), for the  
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For the Period of October 1, 2018 through August 22, 2020

### Background

On August 23, 2017, the United States Agency for International Development/Afghanistan (“USAID”) awarded a combination Award consisting of a Cost-Plus Fixed Fee (“CPFF”) Completion (“CLIN 0001”) and a single-Award Indefinite Delivery/Indefinite Quantity (“IDIQ”) type contract (“CLIN 0002”) Contract number AID-306-H-17-00003 (the “Contract” or “Award”) to Management Systems International Inc. (“MSI”) for the Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project. MSI focuses its efforts on recommending, designing, and implementing positive incentives that encourage accountability and promote buy-in and sustainability for anti-corruption initiatives such as the following:

1. Publicly recognize government departments that implement noteworthy reforms to improve service delivery and eliminate corrupt business practices.
2. Encourage the Government of the Islamic Republic of Afghanistan (“GIROA”) institutions to establish a competitive awards program for their staff.
3. Communicate to the public about how many corruption problems government institutions have fixed.
4. Support “champions for reform” in government institutions and boost their efforts by providing Component 2 special funding if appropriate.

The Contract was funded to support Afghanistan’s Government efforts to reduce and prevent corruption in government public services by working with Afghan government agencies and using business process re-engineering and other techniques to develop corruption risk mitigation plans. In addition, MSI monitors the implementation of the project’s reforms. The budget for the contract is \$31,986,588 with a period of performance from August 23, 2017, through August 22, 2022. The Contract is broken down into CLIN 0001 and CLIN 0002:

- Under CLIN 0001, MSI must furnish all personnel, materials, equipment, supplies, facilities, services and perform all activities necessary for the AMANAT project. The original budget for CLIN 0001 of the Contract totaled [REDACTED], which includes a fixed fee of [REDACTED].
- Under CLIN 0002, MSI must furnish additional technical assistance arising out of or related to the completion of the contract, as required by Government-issued Task Orders. The original budget for CLIN 0002 totaled [REDACTED], which includes a fixed fee of [REDACTED]. Two task orders were created under CLIN 0002 during our audit period with an original total obligated funding of \$4,061,684 combined, as follows:
  - Task Order #7203060619F00003 – The purpose of this task order is to support the Executive Committee on Prevention of Corruption and Systems Development (ExPres). MSI will provide professional experts in several technical fields who will be embedded in the Secretariat Unit and will provide training and technical policy

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and support to existing staff. The original period of performance from August 4, 2019, through May 31, 2020 with a budgeted amount of [REDACTED]. The Task Order was terminated for convenience effective November 26, 2019 and USAID de-obligated the entire budgeted amount of [REDACTED].

- o Task Order #72030620F00001 – The purpose of this task order is to support Asan Khedmat (under the National Statistics and Information Authority (NSIA)) to assess and implement anti-corruption reforms with the goal of increasing transparency and accountability in selected ministries. The original period of performance is from June 30, 2020, through December 31, 2021 with a budgeted amount of [REDACTED].

As detailed in the Summary of Awards below, the approved budget totaled \$31,986,588. Throughout the duration of the contract, there were nine modifications to the contract to re-align the budgeted amount, but the period of performance and the total approved budget remained the same. See Summary of Award below.

**Summary of Award**

| Contract Number | Contract Type | Original            |                   | As Amended        |                         |                 |
|-----------------|---------------|---------------------|-------------------|-------------------|-------------------------|-----------------|
|                 |               | Budget (\$)         | Original Date     | No. of Amendments | Total Final Budget (\$) | End             |
| (CLIN 0001)*    | CPFF          | [REDACTED]          | 8/23/17 – 8/22/22 | 8                 | No Change               | No Change       |
| (CLIN 0002)*    | IDIQ          | [REDACTED]          | 8/23/17 – 8/22/22 | 1                 | See Chart Next Page     | See Chart Below |
| <b>Total:</b>   |               | <b>\$31,986,588</b> |                   | <b>9</b>          | <b>\$31,986,588</b>     |                 |



## Management Systems International, Inc.

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For the Period of October 1, 2018 through August 22, 2020

### Detail Summary of CLIN 002 Task Orders

| Contract Number                                  | Contract Type | Original           |                        | As Amended        |                         |                              |
|--|---------------|--------------------|------------------------|-------------------|-------------------------|------------------------------|
|  |               | Budget (\$)        | Original Date          | No. of Amendments | Total Final Budget (\$) | End                          |
| AID-306-H-17-00003                               |               |                    |                        |                   |                         |                              |
| (CLIN 0002)*<br>Task Order -<br>7203060619F00003 | Task Order    | ██████████         | 08/04/19 –<br>05/31/20 | 1                 | ██████████              | Terminated<br>on<br>11/26/19 |
| (CLIN 0002)<br>Task Order -<br>72030620F00001    | Task Order    | ██████████         | 06/30/20 –<br>12/31/21 | 0                 | No Change               | No Change                    |
| <b>Total:</b>                                    |               | <b>\$4,061,687</b> |                        | <b>1</b>          | ██████████              |                              |

\*Indicates the Award was amended.

MSI is a for-profit international development consulting firm owned by Tetra Tech. MSI is based in Arlington, Virginia.

### **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 the Contract, as mentioned above, of Management Systems International, Inc.’s (“MSI”) Special Purpose Financial Statement (“SPFS”) for costs incurred under the contract totaling ██████████ for the period October 1, 2018 through August 22, 2020.

### **Objectives, Scope, and Methodology**

#### Audit Objectives

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

- *Special Purpose Financial Statement (“SPFS”) – Express an opinion on whether MSI’s SPFS for the Contract 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*

(Continued)

## **Management Systems International, Inc.**

Financial Audit of Costs Incurred Under  
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the terms of the Contract and generally accepted accounting principles or other comprehensive basis of accounting.

- *Internal Controls* – Evaluate and obtain a sufficient understanding of MSI’s internal controls related to the Contract, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether MSI complied, in all material respects, with the Contract requirements and applicable laws and regulations and identify and report on instances of material noncompliance with terms of the Cooperative Contract 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 MSI has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

### **Scope**

The scope of this audit included all costs incurred during the period of October 1, 2018 through August 22, 2020 totaling [REDACTED] under the Contract. 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 the Negotiated Indirect Cost Rate Agreement (“NICRA”) and subsequent applicable amendments.

### **Audit 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 August 10, 2021 with representatives of MSI, Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance 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:

(Continued)

## **Management Systems International, Inc.**

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For the Period of October 1, 2018 through August 22, 2020

- Obtained an understanding of MSI. The scope of our audit includes the MSI’s management and employees, internal and external factors that affect operations, and accounting policies and procedures. We gained an understanding of MSI through interviews, observations, and reading policies and manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
  - Contract and all amendments;
  - Any subawards;
  - Any regulations that are specific to the Contracts requirements;
  - Audited financial statements;
  - Previous audit reports;
  - Other internal audit reports;
  - Government Accountability Office (GAO) reports; and
  - Consultant reports.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs are properly recorded.

### Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract, 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 Contract, and reasonable;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional and final negotiated indirect cost rates to ensure that they were accurately applied.

(Continued)

## **Management Systems International, Inc.**

Financial Audit of Costs Incurred Under  
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For the Period of October 1, 2018 through August 22, 2020

### Internal Controls Related to the Contract

We reviewed MSI’s internal controls related to the Contract to gain an understanding of the implemented system of internal control to obtain reasonable assurance of MSI’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, identifying key controls within significant transaction cycles, and testing those key controls.

### Compliance with Contract Requirements and Applicable Laws and Regulations

We performed tests of transactions to determine whether MSI complied, in all material respects, with the Contract’s requirements, USAID Acquisition Regulation (AIDAR), Federal Acquisition Regulation, Part 31 (“FAR 31”), and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.

### Corrective Action on Prior Findings and Recommendations

We requested from MSI to identify previous engagements that could have a material effect on MSI’s SPFS. In addition, we conducted a search online of various governmental websites, including SIGAR (www.sigar.mil), USAID (www.usaid.gov), and other applicable Federal agencies, to identify previous engagements that could have a material effect on MSI’s SPFS. For those engagements, we 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 32.

### Exit Conference

An exit conference was held on December 15, 2021, via conference call. Participants included representatives from Conrad, MSI, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

## **Summary of Results**

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 unqualified opinion on the fairness of the presentation of the SPFS.

(Continued)

## **Management Systems International, Inc.**

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For the Period of October 1, 2018 through August 22, 2020

We identified \$22,945 in total questioned costs, which comprised of \$1,225 in ineligible costs and \$21,720 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Contract’s provisions or applicable laws and regulations, or not related to the Contract. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on MSI’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*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

### Internal Control Findings

Our audit identified four internal control findings. The four internal control findings considered to be significant deficiency. See Independent Auditor’s Report on Internal Control on page 18.

### Compliance Findings

The results of our testing identified four instances of noncompliance. 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*. MSI self-disclosed two instances of alleged fraud that could have potentially impacted AMANAT and the SPFS. Based on further discussions with MSI and review of the alleged incidences of fraud, an internal investigation into these allegations was completed and the results found that there was no material effect to AMANAT or the SPFS during the period under review. As such, there are no further communications warranting additional consideration.

(Continued)

**Management Systems International, Inc.**

Financial Audit of Costs Incurred Under  
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For the Period of October 1, 2018 through August 22, 2020

**Schedule of Findings and Questioned Costs**

| <b>Finding Number</b>         | <b>Nature of Finding</b>                                     | <b>Matter</b>   | <b>Ineligible Costs</b> | <b>Unsupported Costs</b> | <b>Cumulative Questioned Cost</b> |
|-------------------------------|--|---|-------------------------|--------------------------|-----------------------------------|
| 2021-01                       | Non-Compliance;<br>Internal control – Significant Deficiency | Inadequate Timekeeping Practice for U.S. Expatriate Employees   | \$0                     | \$16,088                 | \$16,088                          |
| 2021-02                       | Non-Compliance;<br>Internal control – Significant Deficiency | Lack of Sufficient Evidence for Continuing Qualification on Separate Maintenance Allowance                | \$0                     | \$5,632                  | \$21,720                          |
| 2021-03                       | Non-Compliance;<br>Internal control - Deficiency–            | Lack of Sufficient Evidence to Support Subcontractor Costs Incurred and Cost Overcharged by Subcontractor | \$27                    | \$0                      | \$21,747                          |
| 2021-04                       | Non-Compliance;<br>Internal control – Significant Deficiency | Overcharge to USAID identified  | \$1,198                 | \$0                      | \$22,945                          |
| <b>Total Questioned Costs</b> |  |   | <b>\$1,225</b>          | <b>\$21,720</b>          | <b>\$22,945</b>                   |

**Internal Control Findings**

Our audit Identified four internal control findings, consisting of three significant deficiencies and one deficiency. See Independent Auditor’s Report on Internal Control on page 18.

**Compliance Findings**

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

(Continued)

## **Management Systems International, Inc.**

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United States Agency for International Development/Afghanistan (“USAID”) for the  
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For the Period of October 1, 2018 through August 22, 2020

In performing our testing, we considered whether the information obtained 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.

### Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to MSI’s activities under the Contract, we identified five prior audit reports that contained eleven findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with the management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our audit. Based on our review, MSI had taken adequate corrective actions on 7 out of the 11 findings and did not take adequate corrective action on 4 findings. See Status of Prior Audit Findings on page 32 for a detailed description of the prior findings and recommendations.

### **Summary of MSI’s Responses to Findings**

MSI disagreed with **Finding 2021-01** and **Finding 2021-02**, partially agreed to **Finding 2021-03**, and agreed with **Finding 2021-04**. We have reviewed MSI’s responses which are included in Appendix A and provided our rebuttal on Appendix B.



## INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors  
Management Systems International, Inc.  
Arlington, Virginia, USA

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 Management Systems International, Inc. ("MSI") and the related notes to the Special Purpose Financial Statement, with respect to the Contract ("Contract" or "Award") No. AID-306-H-17-00003 awarded by the United States Agency for International Development/Afghanistan ("USAID"), for the period of October 1, 2018 through August 22, 2020.

### **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.

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 MSI'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 MSI'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 earned, costs incurred, and balances for the indicated period of October 1, 2018 through August 22, 2020, in accordance with the terms of the Contract and in conformity with the basis of accounting described in Note 3.

### **Basis of Accounting**

We draw attention to Note 3 to the Special Purpose Financial Statement, which describes the basis of presentation and accounting. As described in Note 3 to the Statement, the Statement is prepared by MSI 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 March 17, 2022 on our consideration of MSI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Contract 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 MSI's internal control over financial reporting and compliance.

### **Restriction on Use**

This report is intended for the information of MSI, United States Agency for International Development/Afghanistan, 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  
March 17, 2022

**Management Systems International, Inc.**

Financial Audit of Costs Incurred Under  
 Contract No. AID-306-H-17-00003 Awarded by the  
 United States Agency for International Development/Afghanistan (“USAID”) for the  
 Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project

Special Purpose Financial Statement

|                          | <u>Budget</u>       | <u>Actual</u>     | <u>Questioned Costs</u> |                    |                  | <u>Notes</u> |
|--------------------------|---------------------|-------------------|-------------------------|--------------------|------------------|--------------|
|                          |                     |                   | <u>Ineligible</u>       | <u>Unsupported</u> | <u>Total</u>     |              |
| Revenues:                |                     |                   |                         |                    |                  |              |
| CLIN 0001                | ██████████          | ██████████        | \$ -                    | \$ -               | \$ -             | (4)          |
| CLIN 0002                | ██████████          | ██████████        |                         |                    |                  |              |
| Total revenues           | <u>\$31,986,588</u> | ██████████        | _____ -                 | _____ -            | _____ -          |              |
| Costs incurred:          |                     |                   |                         |                    |                  |              |
| Direct Costs             | ██████████          | ██████████        | 1,105                   | 13,813             | 14,918           | (A)          |
| Labor Costs              | ██████████          | -                 | -                       | -                  | -                |              |
| Other Direct Costs       | ██████████          | ██████████        | -                       | -                  | -                |              |
| Indirect Costs           | ██████████          | ██████████        | 120                     | 7,907              | 8,027            | (B)          |
| Grants                   | ██████████          | ██████████        | -                       | -                  | -                |              |
| Security Costs           | ██████████          | ██████████        |                         |                    |                  |              |
| Fixed Fee                | ██████████          | ██████████        |                         |                    |                  |              |
| Total costs incurred     | <u>\$31,986,588</u> | ██████████        | <u>\$ 1,225</u>         | <u>\$ 21,720</u>   | <u>\$ 22,945</u> |              |
| Outstanding fund balance | <u>\$ _____ -</u>   | <u>\$ _____ -</u> |                         |                    |                  |              |

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

# Management Systems International, Inc.

Financial Audit of Costs Incurred Under  
Contract No. AID-306-H-17-00003 Awarded by the  
United States Agency for International Development/Afghanistan (“USAID”) for the  
Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project

Notes to the Special Purpose Financial Statement<sup>1</sup>

For the Period of October 1, 2018 through August 22, 2020

## (1) **Status and Operation**

Management Systems International, Inc. (MSI) was incorporated in the District of Columbia in 1981. MSI is a wholly owned subsidiary of Tetra Tech, Inc. MSI’s range of technical expertise includes a global network of experts in their fields including governance; monitoring, evaluation and learning; anti-corruption; education; public sector management; and organizational development. MSI provides services to the U.S. government, primarily to the U.S. Agency for International Development (USAID) at locations throughout the world, based on customer requirements. The Company is headquartered in Arlington, Virginia.

## (2) **Program Purpose**

The purpose of this contract is to support the Afghanistan’s Government efforts to reduce and prevent corruption in government public services through the Afghanistan’s Measure for Accountability and Transparency (AMANAT) project.

## (3) **Summary of Significant Accounting Policies**

### a. **Basis of Accounting**

Expenditures reported on the Statement are reported on an accrual basis of accounting. Such expenditures are recognized following the cost principles contained in FAR 31, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### b. **Basis of Presentation**

The accompanying Special Purpose Financial Statement (“Statement”) includes costs incurred under the United States Agency for International Development/Afghanistan Contract Number AID-306-H-17-00003 for the Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project during the period October 1, 2018 through August 22, 2020. Because the Statement presents only a selected portion of the operations of Management Systems International, Inc. (“MSI”) it is not intended to and does not present the financial position, changes in net assets, or cash flows of MSI. 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 Contract.

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<sup>1</sup> These Notes to the Special Purpose Financial Statement are the responsibility of Management Systems International, Inc.

## Management Systems International, Inc.

Financial Audit of Costs Incurred Under  
Contract No. AID-306-H-17-00003 Awarded by the  
United States Agency for International Development/Afghanistan (“USAID”) for the  
Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project

Notes to the Special Purpose Financial Statement<sup>1</sup>

For the Period of October 1, 2018 through August 22, 2020

c. Foreign Currency conversion method

The SPFS is presented in U.S. dollars. MSI’s practice with regards to how it determines the exchange rate used in recording and billing expenses paid abroad in foreign currencies is as follow: The exchange rate used in a given month for recording and billing expenses incurred in a foreign currency in the field is equal to the weighted average exchange rate of the funds converted from US Dollars to Local Currency for the project in the prior month. Payments made from US in foreign currency, MSI converts any expenses that were paid in Afghanis into U.S. dollars by using the current exchange rate in effect on the transaction date.

(4) Revenues

Revenues on the Statement represent the amount of funds to which MSI is entitled to receive from the USAID for allowable, eligible costs incurred under the contract during the period of performance. Revenues on the Statement also include earned Fixed Fees under the contract during the period of performance.

(5) Cost Categories

The budget categories presented, and associated amounts reflect the budget line items presented within the approved contract budget. The total budget for the program is \$31,986,588 for the performance of 5 years.

(6) Reconciliations

The 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 contract 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.

(7) Program Status

The Afghanistan’s Measure for Accountability and Transparency (AMANAT) project remains active. The period of performance for the contract is scheduled to conclude on August 22, 2022.

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<sup>1</sup> These Notes to the Special Purpose Financial Statement are the responsibility of Management Systems International, Inc.

## Management Systems International, Inc.

Financial Audit of Costs Incurred Under  
Contract No. AID-306-H-17-00003 Awarded by the  
United States Agency for International Development/Afghanistan (“USAID”) for the  
Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

For the Period of October 1, 2018 through August 22, 2020

### (A) Direct Costs

MSI reported a total of [REDACTED] 1 for direct costs for the period of October 1, 2018 through August 22, 2020. Direct costs consisted of [REDACTED] of labor costs, [REDACTED] of material/equipment costs, [REDACTED] of other direct costs [REDACTED] of subcontractor costs, [REDACTED] of travel costs, [REDACTED] of fringe costs, and [REDACTED] of NICRA costs. During our audit of these costs, we noted:

- a. Employees submitted timesheets prior to the last day of the timesheet period which resulted in total unsupported direct labor costs of [REDACTED]. See Finding No. 2021-01 in the Schedule of Findings and Questioned Costs section of this report.
- b. MSI was not able to provide sufficient documentation to show that an employee was qualified to receive SMA which resulted in total unsupported direct other direct costs of [REDACTED]. See Finding No. 2021-02 in the Schedule of Findings and Questioned Costs section of this report.
- c. MSI was unable to provide an invoice prepared by a consultant as required in the consultant subcontract. Additionally, a local travel cost was double charged to the AMANAT project which resulted in total ineligible direct subcontractor costs of [REDACTED]. See Finding No. 2021-03 in the Schedule of Findings and Questioned Costs section of this report.
- d. MSI overcharged participant stipends for training attended which resulted in total ineligible direct other direct costs of [REDACTED]. See Finding No. 2021-04 in the Schedule of Findings and Questioned Costs section of this report.

As a result of these findings, we have questioned [REDACTED] in ineligible costs and [REDACTED] in unsupported costs, totaling [REDACTED] in questioned costs.

### (B) Indirect Costs

MSI reported a total of [REDACTED] 1 for Indirect Costs for the period of October 1, 2018 through August 22, 2020. The indirect costs associated with questioned costs identified in Note A above resulted in total ineligible indirect costs of [REDACTED] and total unsupported indirect costs of [REDACTED]. This resulted in total questioned indirect costs of [REDACTED].

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<sup>2</sup> 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.



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors  
Management Systems International, Inc.  
Arlington, Virginia, USA

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 ("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 Management Systems International, Inc. ("MSI"), under Afghanistan's Measure for Accountability and Transparency ("AMANAT") project, Contract No. AID-306-H-17-00003, for the period October 1, 2018 through August 22, 2020. We have issued our report thereon dated March 17, 2022 with an unmodified opinion.

### Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement of MSI for the period of October 1, 2018 through August 22, 2020, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Special Purpose Financial Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify four deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs. Findings 2021-01, 2021-02, and 2021-04 are considered to be significant deficiencies and Finding 2021-03 is considered to be deficiency.

### **Management Systems International, Inc.'s Response to Findings**

The MSI's response to the findings identified in our audit is included verbatim in Appendix A. The MSI'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 MSI'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 MSI, the United States Agency for International Development/Afghanistan, 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  
March 17, 2022



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors  
Management Systems International, Inc.  
Arlington, Virginia, USA

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 ("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 Management Systems International, Inc. ("MSI"), under Afghanistan's Measure for Accountability and Transparency ("AMANAT") project, Contract No. AID-306-H-17-00003, for the period October 1, 2018 through August 22, 2020. We have issued our report thereon dated March 17, 2022 with an unmodified opinion.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MSI'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 Contract, 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 four 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 2021-01, 2021-02, 2021-03 and 2021-04.

### **Management Systems International, Inc.'s Response to Findings**

MSI's response to the findings identified in our audit is included verbatim in Appendix A. MSI'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 MSI, the United States Agency for International Development/Afghanistan, 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.

*Conrad LLP*

Lake Forest, California  
March 17, 2022

**Management Systems International, Inc.**

Financial Audit of Costs Incurred Under  
 Contract No. AID-306-H-17-00003 Awarded by the  
 United States Agency for International Development/Afghanistan (“USAID”) for the  
 Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project

For the Period of October 1, 2018 through August 22, 2020

Schedule of Findings and Questioned Costs

**Finding 2021-01: Inadequate Timekeeping Practice for U.S. Expatriate Employees**

**Nature of Finding:** Internal Control Significant Deficiency and Noncompliance

**Condition:** Conrad tested 13 out of 53 employee payroll records for 80 pay periods totaling 136 timesheets to determine if the costs incurred under the program were adequately supported, accurate, and properly approved. During our testing of payroll, we noted fifty-nine (59) instances where employees prepared and submitted timesheets prior to the pay period end. Of those 59, twelve (12) were approved by a supervisor after the pay period end. Conrad did not question any costs on these 11 timesheets as they were approved after the pay period. However, there were forty-seven (47) instances where timesheets were submitted by the employee and supervisors approved the timesheets one day prior to the pay period end. All of these timesheets were submitted by U.S. expatriate employees.

For each of the instances of early pay period submissions listed above, there is a lack of control and evidence to demonstrate that the estimated hours submitted prior to the period end were hours actually worked. Conrad also found no evidence of subsequent reviews of the timesheets indicating the estimated hours were recorded correctly to reflect the actual work performed for the day(s) in question that were approved prior to the end of the pay period. These forecasted hours resulted in forecasted labor costs and does not reflect actual cost incurred. The inadequate control and evidence demonstrating the hours were actually worked resulted in questioned amounts:

| Issue Type  | # of Instances | Questioned Amount | Associated Indirect Costs | Total     |
|---|----------------|-------------------|---------------------------|-----------|
| Timesheets submitted by the employee and approved by supervisor one day prior to pay period end | 47             | ██████████        | ██████████                | \$ 16,088 |

**Criteria:**

**MSI’s Timekeeping Policy**, states in part:

“Original monthly timesheets must be submitted for hours worked during that month. All timesheets must be approved on a monthly basis by the employee’s direct supervisor, Finance and Administration Manager, and Chief of Party, prior to processing the payment with payroll...”

**MSI’s Field Expense Categories Policy**, states in part:

“Below Guidance is for long-term and short-term CCNs paid from the field office...  
 ...Please note that it is MSI policy that timesheets are filled out on a daily basis. Individuals may not project time forward if it has not yet been worked. The only exception to this policy is if the employee will be on approved leave for the remainder of the pay period.”

(Continued)

**Federal Acquisition Regulation, Part 31.001, Definitions**

“Actual costs means (except for [subpart 31.6](#)) amounts determined on the basis of costs incurred, as distinguished from forecasted costs. Actual costs include standard costs properly adjusted for applicable variances.”

**Federal Acquisition Regulation, Part 31.201-2, Determining allowability**, states in part:

“...(c) When contractor accounting practices are inconsistent with this [subpart 31.2](#), costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.

(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

**Federal Acquisition Regulation, Part 52.203-13(c)(2), Contractor Code of Business Ethics and Conduct**, states, in part:

“An internal control system.

(i) The Contractor’s internal control system shall—

(A) Establish standards and procedures to facilitate timely discovery of improper conduct in connection with Government contracts; and

(B) Ensure corrective measures are promptly instituted and carried out.

(ii) At a minimum, the Contractor’s internal control system shall provide for the following:

(A) Assignment of responsibility at a sufficiently high level and adequate resources to ensure effectiveness of the business ethics awareness and compliance program and internal control system...”

**Cause:** MSI does not have an official timekeeping policy and lacks adequate compensated control for verifying accuracy of forecasted hours for U.S. expatriates and its policies are silent on the early submission of timesheets for U.S. expatriates. Unlike its timekeeping policies for CCNs, MSI allows U.S. expatriates to estimate time worked for a day prior to the period end and the supervisors to approve this time before the end of the pay period. MSI indicated this practice is to allow payroll for U.S expatriates to be processed on time. However, MSI does not perform, nor does it have formal procedures to review the accuracy of timesheets that were submitted and approved early.

**Effect:** Estimated time worked on the project can increase the risk of unallowable costs being charged to the U.S. government.

**Questioned Costs:** We identified [REDACTED] in unsupported costs and [REDACTED] in associated indirect costs, which resulted in \$16,088 in total questioned costs.

**Recommendation:**

- (1) We recommend that MSI either provide additional support evidencing the subsequent verification of early timesheet submissions and approvals to determine the validity of the estimated time entered or return the \$16,088 of unsupported costs.
- (2) We recommend MSI revise its current policies and procedures to cover early submission and approval of timesheets for U.S. Expatriate employees to include compensating controls to ensure staff time entered is accurate when the employee submits time and the supervisor approves time prior to the pay period end.

**Finding 2021-02: Lack of Sufficient Evidence for Continuing Qualification on Separate Maintenance Allowance.**

**Nature of Finding:** Internal Control Significant Deficiency and Noncompliance

**Condition:** Conrad tested 74 out of 3,631 Direct Costs - Other Direct Costs (“ODC”) totaling [REDACTED] to determine if the costs incurred under the program were adequately supported and allowable. During the testing, we noted, 5 transactions for one employee who received an Involuntary Separate Maintenance Allowance (“SMA”), but we could not determine if the employee met the qualifications for SMA over the course of his employment. The employee originally signed in his renewal employment agreement, that he will need an SMA for his spouse and four or more children. However, we found no further evidence to determine if the employee continued to qualify for Involuntary SMA in support of the 5 SMA payments made. Therefore, Conrad could not determine if circumstances persisted to qualify the employee and his family for a monthly SMA. This resulted in \$5,632 in unsupported costs.

**Criteria:**

**Federal Acquisition Regulation, Part 31.201-2(d), Determining allowability**, in part, states:

“A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

**Federal Acquisition Regulation, Part 52.203-13(c)(2), Contractor Code of Business Ethics and Conduct, states**, in part:

“An internal control system.

(i) The Contractor’s internal control system shall—

(A) Establish standards and procedures to facilitate timely discovery of improper conduct in connection with Government contracts; and

(B) Ensure corrective measures are promptly instituted and carried out.

(ii) At a minimum, the Contractor’s internal control system shall provide for the following:

(A) Assignment of responsibility at a sufficiently high level and adequate resources to ensure effectiveness of the business ethics awareness and compliance program and internal control system...”

**Cause:** MSI lacked a formal review policy and procedure and adequate internal controls to ensure employees certify and document their continuing qualification to receive SMA and that there has been no change in their family status to allow to continue SMA prior to each payment is processed.

**Effect:** Lack of policy and procedures for verification of employee to continue qualify for SMA increases the risk in issuing unallowed SMA payments to employees.

**Questioned Costs:** We identified [REDACTED] in unsupported costs and [REDACTED] associated indirect costs, which resulted in \$5,632 in total questioned costs.

(Continued)

**Recommendation:**

- (1) We recommend that MSI provide evidence to USAID showing that this employee continued to qualify for involuntary Separate Maintenance Allowance SMA payments during the audit period, or return \$5,632 of unsupported costs.
- (2) We recommend that MSI develop and implement policies and procedures to ensure a continuing verification process to review employee qualifications for SMA allowance prior to each payment process.

**Finding 2021-03: Lack of Sufficient Evidence to Support Subcontractor Costs Incurred and Cost Overcharged by Subcontractor**

**Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** Conrad tested 26 out of 155 Direct Costs – Subcontractor expenses totaling [REDACTED] to determine if the costs incurred under the program were adequately supported and allowable. During the testing, we noted, MSI was unable to provide an invoice prepared by a subcontractor’s consultant as required by the consultant agreement. The subcontractor provided an internally prepared observation form of the work performed by the consultant in lieu of the required invoice as alternate support to demonstrate the work had been performed by the consultant.

Additionally, we noted that for 1 out of 26 samples tested, a local travel cost was double charged to the AMANAT project which resulted in an overcharge to USAID.

| Description of Issue            | No. of Instances | Questioned Costs |
|---------------------------------|------------------|------------------|
| Missing invoice from consultant | 1                | \$ 0             |
| Double charge to travel         | 1                | [REDACTED]       |
| <b>Total</b>                    | <b>2</b>         | [REDACTED]       |

**Criteria:**

**Federal Acquisition Regulation, Part 52.244-2(f)**, states, in part:

“Unless the consent or approval specifically provides otherwise, neither consent by the Contracting Officer to any subcontract nor approval of the Contractor’s purchasing system shall constitute a determination-

- (1) Of the acceptability of any subcontract terms or conditions;
- (2) Of the allowability of any cost under this contract; or
- (3) To relieve the Contractor of any responsibility for performing this contract...”

**According to the Subcontractor’s consultant agreement with the consultant:**

“INVOICING AND PAYMENT...C. Payment - Except as otherwise provided in this Agreement, invoices shall be payable by EAI within thirty (30) days after receipt of a properly rendered invoice from Consultant.”

**According to MSI’s Field Expense Supporting Documentation Policy:**

“a. Non-Payment Transactions:

Below are lists of back-up documentation that the accountant should have for specific non-payment transactions as well as general examples of who approves which transactions...

...Subcontractor Invoice Payments –

- Approved voucher form
- Original subcontractor invoice
- Written approval of invoice for payment (from technical staff of chief of party)
- Memo explaining any disallowed costs
- Copy of check
- For all subcontracts except fixed price (FP):
  - Copies of corresponding timesheets
  - Original receipts...”

**Federal Acquisition Regulation, Part 31.201-2(d), Determining allowability, states:**

“A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

**Federal Acquisition Regulation, Part 31.205-33(f), Professional and consultant service costs, states:**

“Fees for services rendered are allowable only when supported by evidence of the nature and scope of the service furnished (see also 31.205-38(c)). However, retainer agreements generally are not based on specific statements of work. Evidence necessary to determine that work performed is proper and does not violate law or regulation shall include-

...(2) Invoices or billings submitted by consultants, including sufficient detail as to the time expended and nature of the actual services provided;”

**Cause:** Although these appeared to be isolated instances, MSI’s subcontractor monitoring policy did not have sufficient procedures in place to conduct routine tests of its subcontractor costs to ensure they provide the correct supporting documentation in adherence to the subcontract requirements.

**Effect:** The lack of sufficient evidence for costs claimed resulted in increasing the risk of the Government overpaying for goods and services as well as increasing the risk of subcontractors abusing Federal funds by charging costs that might not have been incurred.

**Questioned Costs:** We identified [REDACTED] in ineligible costs and [REDACTED] in associated indirect costs totaling \$27 in ineligible costs.

**Recommendation:**

- (1) We recommend MSI provide evidence to support the travel costs were not a double charge, or refund \$27 of ineligible cost to USAID.
- (2) We recommend that MSI require its subcontractor’s consultant to continue abide to the term of the consultant agreement and provide invoice(s) for any work performed or update the term of the consultant agreement and/or policy and procedures to allow an observation form as an alternate supporting evidence for consultant work perform.
- (3) We recommend that MSI develops and implements additional procedures under its subcontractor monitoring policy to ensure additional controls are in place, such as including a routine test of subcontractor’s invoices, to ensure incurred costs are properly supported.



## **Finding 2021-04: Overcharge to USAID Identified**

**Nature of Finding:** Internal Control Significant Deficiency and Noncompliance

**Condition:** Conrad tested 74 out of 3,631 Direct Costs - Other Direct Costs (“ODC”) expenses totaling ██████ to determine if the costs incurred under the program were adequately supported and allowable. MSI paid stipends to participants based on the number of participants signed up for the training, but did not have additional controls to ensure the participants did actually attend the training. We noted that for 5 out of 74 samples tested, stipends were paid to participants who did not attend training. This resulted in an \$1,198 overcharge to USAID.

**Criteria:**

**MSI’s Compliance and Internal Controls Policy, Section B. Review, Approval, and Disbursement Process** states, in part:

“Reviewing and approving payment requests, and subsequently disbursing the payments, involve reviewing the completed forms and supporting documentation to ensure compliance with MSI procedures for payment. Tasks related to financial disbursement process should be split between at least two, and very preferably three, project staff members...

...The same person should not prepare, approve, disburse, and report financial transactions. When two or three people act as a check and balance, it increases the odds of catching mistakes and reduces the opportunity for fraud and theft.”

**Federal Acquisition Regulation, Part 31.201-2(d), Determining allowability**, states, in part:

“A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

**Cause:** MSI lacked a policy and procedure for supervisory review and reconciliation controls to ensure participants who signed up for training did actually attend the training prior to paying stipends to the participants.

**Effect:** The lack of policy and procedure for supervisory review and controls to monitor the accuracy of participants who attended trainings resulted in overcharging the U.S. Government.

**Questioned Costs:** We identified ██████ in ineligible costs and ██████ in associated indirect costs, which resulted in \$1,198 combined total ineligible questioned costs.

**Recommendation:**

- (1) We recommend that MSI provide evidence that the attendees who received a stipend actually attended the trainings, or return the ineligible costs of \$1,198.
- (2) We recommend MSI conduct an impact analysis to determine if there were any other overpaid participant stipends.

(Continued)

- (3) We recommend MSI develop and implement policies and procedures to ensure that a supervisory review and reconciliation controls are in place to ensure only participants who attended the training receive stipends.

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### Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from MSI, SIGAR, and USAID pertaining to MSI and activities under this agreement and other Government funded awards. We identified five prior audit reports which contained 11 findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow up procedures, including discussions with MSI’s management and performing testing of similar activities during our audit. We determined that MSI had taken adequate corrective action on the 7 of the 11 findings and 4 findings still remain open. We have summarized the results of our procedures below:

- (1) SIGAR15-53 Financial Audit (USAID’s Measuring Impact of Stabilization Initiative: Audit of Costs Incurred by Management Systems International (MISTI) – An audit of costs incurred was conducted in 2015 by an external accounting firm on behalf of SIGAR on a task order and fixed daily rate plus cost reimbursement contract between MSI and USAID for the period of March 14, 2012, through September 13, 2013.

#### **Finding No. 2013-01 – Cash Management Procedures:**

**Issue:** During the testing of MSI’s cash management procedures for the MISTI, it was noted 2 out of 15 expenses tested were not paid within 30 days of invoicing USAID. Specifically, security service payments to subcontractors totaling \$71,035 were invoiced to USAID on May 22, 2012, and November 15, 2012.

**Status:** For the current engagement, there were no instances where expenses were not paid within 30 days of invoicing USAID during the audit period for testing. In addition, we have reviewed MSI’s Field Expense Cycle and Submitting Documents to HQ Policy. It appears that adequate controls have been put into place. As such, we concluded that MSI has taken adequate corrective action on this finding.

#### **Finding No. 2013-02 – Cash Management Procedures:**

**Issue:** Two quarterly financial reports selected for testing (December 2012 and September 2013) were not submitted by the deadline specified in the task order. Specifically, the report for the quarter ended December 31, 2012, was submitted on January 30, 2013, and the report for the quarter ended September 30, 2013, was submitted on October 30, 2013.

**Status:** For the current engagement, there were no instances noted where MSI did not submit quarterly financial reports timely during the audit period under testing. In addition, we have reviewed MSI’s Field Expense Cycle and Submitting Documents to HQ Policy. It appears that adequate controls have been put into place. As such, we concluded that MSI has taken adequate corrective action on this finding.

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- (2) Closeout Audit of Costs Incurred for Afghanistan by Management Systems International, Inc. Under a) Monitoring Support Project – Northern Provinces TO 1 (MSP) No. AID-306-TO-15-00072 for the period from August 9, 2015 to August 10, 2017 And b) Measuring Impact of Stabilization Initiative (MISTI) No. AID-306-TO-12-00004 for the period from July 1, 2014 to October 7, 2015 conducted in 2018 by an external accounting firm on behalf of USAID noted the following finding:

### **Finding No. 2018-01: Missing Documentation**

**Issue:** During the testing of ODC for the MISTI program, MSI was unable to provide supporting documentation for one ODC selection in the amount of \$1,710.

**Status:** During the testing of Other Direct Costs – there were no instances where MSI did not provide supporting document under ODC. In addition, we have reviewed MSI’s Field Expense Supporting Documentation Policy. It appears that adequate controls have been put into place. As such, we concluded that MSI has taken adequate corrective action on this finding.

- (3) USAID Assessment Review Report on the Afghanistan’s Measure for Accountability and Transparency (AMANAT) Program in 2018. On the Contractor Performance Assessment Report System (CPARS) report, USAID noted the following finding:

### **Finding No. 2018-01: MSI overcharged \$39,000 in monthly vouchers**

**Issue:** MSI over-charged \$39,000 in monthly vouchers noted by USAID/Afghanistan in the prior contractor performance assessment report for the period under audit; report dated February 19, 2019.

**Status:** During the testing of Direct Costs – Other Direct Costs and Direct Costs – Subcontractor costs, we noted 6 instances where MSI overcharged USAID. This issue is described in Finding 2021-03 and Finding 2021-04. Conrad concluded that adequate corrective action was not taken with respect to this matter.

- (4) Financial Audit of Costs Incurred in Afghanistan of the USAID Resources Managed by Management Systems International Under USAID’s Afghanistan’s Measure for Accountability and Transparency (AMANAT) – An audit of costs incurred conducted in 2020 by an external accounting firm on behalf of USAID for a contract given to MSI for the period of August 23, 2017, to September 30, 2018, noted the following finding:

### **Finding No. 2019-01: Sub-Contractor’s Compliance with the National Technical Assistance (NTA) Hiring Requirements & Salary and Implementation Guidelines of Afghanistan Government**

**Issue:** MSI did not provide documentation for subcontractors’ compliance with NTA hiring requirements, salary scale, and implementation guidelines of the Afghanistan Government. It is

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the responsibility of the prime contractor to ensure a flow-down of the agreement to the sub-contractors.

**Status:** For the current engagement, there were no instances noted where MSI did not provide documentation for subcontractors’ compliance with NTA hiring requirements and implementation guidelines of the Afghanistan Government during the audit period for testing. As such, we concluded that MSI has taken adequate corrective action on this finding.

- (5) Financial Review of Performance Management Support Contract (PERFORM) – An audit of costs incurred conducted in 2019 by an external accounting firm on a cooperative agreement awarded to MSI from USAID for the period of May 1, 2016, to December 31, 2018, noted the following findings:

### **Finding No. 3.1.1: Refundable security deposit incorrectly charged to USAID**

**Issue:** The auditor’s noted an instance where a subcontractor of MSI (Experience International) has claimed a refundable security deposit for the accommodation of key management personnel amounting to \$2,500 from MSI and the same has been incorrectly charged to USAID - Pakistan. Said amount being a security deposit is ultimately refundable to MSI and is not an expense. Accordingly, said amount should not be charged to USAID - Pakistan.

**Status:** During the testing of Direct Costs – Other Direct Costs and Direct Costs – Subcontractor costs, we noted 6 instances where MSI overcharged USAID. This issue is described in Finding 2021-03 and Finding 2021-04. Conrad concluded that adequate corrective action was not taken with respect to this matter.

### **Finding No. 3.1.2: Utility bills charged twice to USAID – Pakistan**

**Issue:** Costs found Ineligible under the terms of the agreement between MSI and its contractor.

**Status:** During the testing of Direct Costs – Subcontractor costs, we noted one instance where MSI double charged USAID. This issue is described in Finding 2021-03. Conrad concluded that adequate corrective action was not taken with respect to this matter.

### **Finding No. 3.1.3: Inadequate supporting documentation for procurement**

**Issue:** The auditor noted instances, where late payment surcharge (LPS) paid on utility bills for certain months, were paid by Experience International and charged by MSI to USAID - Pakistan.

**Status:** We reviewed MSI’s policies, procedures, and flowcharts for the procurement process during our testing. We noted that all costs included in our testing were adequately supported by procurement documentation. Additionally, we reviewed MSI’s AMANAT Procurement Manual. It appears that adequate controls have been put into place. As such, we concluded that MSI had taken adequate corrective action on this finding.

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### **Finding No. 3.1.4: Salary rates allowed by more than 100% raise as compared to rates as per form 1420**

**Issue:** The auditor noted an instance where more than a 100% raise in daily rate was allowed by MSI over employees’ previous actual/last pay rate as per form 1420. Further, it was noted that the recruitment process manual also does not require USAID’s approval for such an enormous salary increase over the last drawn annual salary as per form 1420. The manual requires approval of the Director of Operations MNEA region for an increase of over and above 10%.

**Status:** For the current engagement, there were no instances noted where MSI allowed for salary rates were raised by more than 100% during the audit period for testing. Additionally, we reviewed MSI’s AMANAT Personnel Manual. It appears that adequate controls have been put into place. As such, we concluded that MSI has taken adequate corrective action on this finding.

### **Finding No. 3.1.5: Transparency of competitive recruitment process cannot be ascertained**

**Issue:** According to the auditors, as per the Recruitment Policy Manual, MSI prepares scoring sheets at the time of hiring. However, any such document was not available for review. Accordingly, they were unable to determine that the new hire recruitments for PERFORM were competitive and related cost has been questioned. The estimate of the cost for such employees is \$991,994.

**Status:** For the current engagement, there were no instances noted where MSI could not provide evidence of transparency for a competitive recruitment process during testing for the period under audit. Additionally, we reviewed MSI’s AMANAT Personnel Manual. It appears that adequate controls have been put into place. As such, we concluded that MSI has taken adequate corrective action on this finding.

### **Finding No. 3.1.6: Weakness in the monitoring of controls over subcontractors**

**Issue:** The auditor noticed that MSI has not devised any documented policy or Standard Operating Procedures to review and monitor the compliance of subcontractors with the terms of contracts. Further, in respect of labor cost by Experience International (EI) and NORC, personnel files of employees containing employment contracts and records related to the hiring of employees were not available with MSI. Accordingly, the auditors were unable to determine the competitive recruitment of employees by the subcontractors.

**Status:** During the testing of Direct Costs – Subcontractor expenses, although MSI did have a Subcontractor Monitoring memo developed, we noted one instance where MSI was unable to provide supporting documentation for a consultant expense due to lack of subcontractor monitoring. Additionally, we have identified one instance where a subcontractor expense was double charged to MSI, resulting in overcharges to USAID. This issue is described in Finding

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2021-03. Conrad concluded that adequate corrective action was not taken with respect to this matter.

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Management Systems International, Inc.’s (MSI) Responses to the Audit Findings

Included on the following pages are Management Systems International, Inc.’s responses to the findings identified in this report.





**Finding 2021-01: Inadequate Timekeeping Practice for U.S. Expatriate Employees**

**MSI Response:** MSI disagrees with this finding.

**MSI Employee Types:**

MSI has multiple employee types based on location and nationality. This determines their billing category, how they submit their time as well as how they will be paid.

Nationality:

|            |            |
|------------|------------|
| [Redacted] | [Redacted] |
| [Redacted] | [Redacted] |
| [Redacted] | [Redacted] |

Location + Length of Work:

|            |                              |
|------------|------------------------------|
| [Redacted] | [Redacted]                   |
| [Redacted] | [Redacted]                   |
| [Redacted] | [Redacted] assistance (LTTA) |

How the staff submit time and are paid:

|            |            |
|------------|------------|
| [Redacted] | [Redacted] |
| [Redacted] | [Redacted] |
| [Redacted] | [Redacted] |

As demonstrated above, [REDACTED] and [REDACTED] submit timesheets and are paid via a completely different process than [REDACTED]. As such, MSI maintains separate policies and procedures for each.

**Incorrect References and Assumptions - Criteria:**

Under the Criteria section of the finding, the audit team quotes what they are identifying as “MSI’s timekeeping policy”, this statement is not accurate.

The auditor’s quoted reference for “MSI’s timekeeping policy” is from MSI’s Field Office Personnel Manual – AMANAT. While the manual does provide timekeeping guidance, it is strictly for [REDACTED]. Per Applicability of the Manual section of Field Office Personnel Manual – AMANAT:

[REDACTED]

The audit team also quotes MSI’s Field Expense Categories, which is part of the Field Office Finance Manual. As shown in the auditors quoted reference and per Local Employee Salaries and Wages section of the referenced guidance:

[REDACTED]

As previously noted, employee types of questioned timesheets were all [REDACTED] and [REDACTED]. None of the identified timecard issues were for [REDACTED], and therefore, the auditor’s quoted manuals and related sections are not applicable and should not be used in the criteria and basis of the finding.

**Incorrect References and Assumptions – Cause:**

Under the Cause section the auditors state that MSI does not have an official timekeeping policy. This is inaccurate, the appropriate reference for MSI’s timekeeping

policy pertinent to employees paid through U.S. Payroll is from our Tetra Tech Timecards User Guide.

[REDACTED]

It is communicated to all U.S. Payroll staff, as a part of onboarding and routinely throughout the year, that corrections can and should be done at any time if changes need to be made to the Friday hours.

**MSI Additional Information on Timekeeping for Home office staff and Field office LTTA (USN and TCN):**

MSI is a wholly owned subsidiary of Tetra Tech, Inc (Tetra Tech). Tetra Tech has 43+ units operating under their corporate structure and over 20,000 associates worldwide. The timekeeping policy for MSI's [REDACTED] and [REDACTED] [REDACTED] who are paid via U.S. Payroll is set at the Tetra Tech Corporate level, as accounting system processing and payroll are corporate level functions. Tetra Tech's established process takes into consideration the need to coordinate a weekly timesheet submission and review process across the globe. As part of the Tetra Tech's week-end processing all timecards are imported into the accounting system.

All timecard reports pull a date from Pacific Time (PST/PDT), as Tetra Tech Corporate Headquarters are in California. The reports are not able to take into consideration the location of the employee submitting the timecard or the supervisor approving.

Most importantly, MSI does not bill USAID for estimated hours or hours that have not yet been worked. All labor billed to USAID has occurred and has been through multiple instances of review. The approval of timecards is not the only or final time labor costs are reviewed for accuracy before they are billed to USAID.

Once a transaction has been imported into the accounting system, [REDACTED]

[REDACTED] Finally, as part of our invoicing process the Project Management Team would be provided a detailed transaction listing along with the draft billing voucher for their review and approval. A final billing voucher is not submitted to USAID until it has been reviewed and approved by the Project Management Team.

**Conclusion:** MSI respectfully requests reconsideration as to the questioned costs. As demonstrated above we have an official timekeeping policy that is based on location and nationality of the employee. Additionally, have compensating controls to ensure staff time entered is accurate and ensure MSI does not bill USAID for estimated hours or hours that have not yet been worked.

**Finding 2021-02: Lack of Sufficient Evidence for Continuing Qualification on Separate Maintenance Allowance.**

**MSI Response:** MSI disagrees with this finding.

**Additional Information:**

MSI issues an [REDACTED]. The [REDACTED] explains the terms of employment for the employee. It includes information such as project, period of performance, pay rate, benefits, allowances, and a Statement of Work. When there are changes in any agreement terms or relevant information, [REDACTED] Amendments are issued. Agreements and required bilateral amendment modifications have certification signature by both MSI and the employee.

As noted by the auditors they are questioning 5 transactions for one employee who received an Involuntary Separate Maintenance Allowance (SMA).

The employee's initial [REDACTED] was dated [REDACTED]. Following the initial [REDACTED] two additional Amendments impacting SMA were provided to the auditors:

- [REDACTED] # 2, dated [REDACTED], Separate Maintenance Allowance (SMA): \$23,000 per year, based on 1 adult and 4 or more additional family members children.
- [REDACTED] # 3, dated [REDACTED], Separate Maintenance Allowance (SMA): \$25,600 per year, based on 1 adult and 4 or more additional family members.

We believe that this effectively demonstrates MSI's continuing documentation of qualification when there are changes to SMA.

Per MSI's Personnel Policies-Practices Summary USN:

[REDACTED]

[REDACTED]

DSSR section 260 SEPARATE MAINTENANCE ALLOWANCE governs Separate Maintenance Allowance regulations. Within DSSR 260 there are no requirements that necessitates MSI must obtain continuing qualification on a per payment basis as stated to be a requirement by auditors within the Cause and Recommendation sections of their finding.

SMA payments are not an automated payment. Project Management Team completed a Separate Maintenance Allowance (SMA) Worksheet, documenting: period of SMA coverage, type of SMA, number of family members, annual post allowance rate, and calculation of SMA payment due. The completed form is submitted by the Project Management Team to Payroll for processing monthly.

**Conclusion:**

MSI respectfully requests reconsideration as to the questioned costs.

MSI does have a formal system for review and processing of SMA payments and we have shown that changes to SMA are documented as needed within our employee agreements and amendments. Lastly, there are no requirements under DSSR to obtain recertification on a per payment basis. Best practice should not be used for basis of disallowing costs.

MSI adamantly believes supporting documentation provided has been satisfactory to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable requirements.

**Finding 2021-03: Lack of Sufficient Evidence to Support Subcontractor Costs Incurred and Cost Overcharged by Subcontractor**

**MSI Response:**

MSI Disagrees with the finding related to insufficient support for consultant charge.

MSI agrees with the finding related to the double charge of travel totaling \$26. Subcontractor adjustment and credit back to USAID was processed as part of subcontractor's November 2021 invoice received by MSI in January 2022. Credit was then included in MSI's Billing Voucher #85 Jan 2022 submitted to USAID.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

**Auditor Follow-Up:**

Auditor's statement under Condition:

*MSI claimed that the observation form is evidence supporting that the consultant performed the work and has the consultant's name on the form. Conrad reviewed the observation form but the preparer on the observation form did not match the name of the consultant...*

On December 15, 2021, Conrad asked MSI for follow-up on a comment made by MSI regarding the observation form being completed by the consultant and that the subcontractor used the form to demonstrate that the consultant did perform the required work. On December 16, 2021, MSI provided a complete walkthrough of alternate procedures performed by the subcontractor to substantiate the consultant costs in place of a formal invoice. There was no further communication from the auditors on this matter.

The draft report is the first we are hearing that MSI's provided walkthrough of alternate procedures performed by the subcontractor had generated any additional questions as to the allowability of the costs.

We have since followed-up with the subcontractor, who indicated forms that were submitted during fieldwork were just a sample of Covid-19 Anti-Corruption Campaign observation forms, but not specifically for the consultant under the transaction tested. They provided the correct forms and agreed they should have provided them during fieldwork. MSI has shared the correct forms with Conrad audit team in order to support the walkthrough of alternate procedures performed by the subcontractor.

**Fully Supported Costs:**

Under Insufficient support for consultant charge. The total charge was 100,415 AFN [REDACTED]. Of that 20,415 AFN [REDACTED] was from Office Supplies/Printing/Shipping. During fieldwork auditors were provided backup related to the 20,415 AFN [REDACTED] including receipts. These costs did not follow the alternate procedures documented above.

**Conclusion:**

MSI respectfully requests reconsideration as to the questioned costs. We have all necessary documentation to demonstrate that consultant did perform the work required and believe there should be no question as to the allowability of the costs. Additionally,

the other direct costs related to office supplies were fully supported by receipts and should not have been in question.

### **Finding 2021-04 Overcharge to USAID Identified**

**MSI Response:** MSI agrees to return overcharge to USAID.

#### **Additional Information:**

MSI Field office entered an agreement with a company to provide cash transfer assistance to participants of AMANAT trainings in rural provinces of Afghanistan. We implemented the use of a cash transfer company to reduce the risk that came with trainer(s) traveling with large sums of cash. As part of the agreement, MSI would need to send funds to the company in advance of any distribution of stipends to training participants. MSI used the Participant List as supporting documentation for funding the cash transfer company. In the few instances noted by the auditors the actual number of participants in attendance ended up being less due to certain participant conflicts. In these instances, when funds were sent to the cash transfer company the costs were recorded based on the estimated participants rather than actual participants. We do want to clarify, contrary to auditors note under Condition, no stipends were paid to participants who did not attend training. The funds remained in MSI's account with the cash transfer company to be used to offset payments of future trainings or pay for agreement fees. Following this method did not provide a clear audit trail, thus why MSI has reluctantly agreed to the finding.

#### **Conclusion:**

MSI has since implemented policies and procedures which would ensure proper recording and reconciliation of costs. The revised process requires that the prepayment of funds to the transfer company be treated as a vendor advance, not billable project cost. After a final participant attendance list has been obtained and actual stipends paid out, the project team prepares and submits a reconciliation which would record the stipends as direct project cost and offset with the vendor advance previously paid. This process has ensured a clear audit trail to support all payments of participant stipends.



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Auditor’s Rebuttal to Management Systems International, Inc.’s Responses to Audit

MSI disagreed with **Finding 2021-01** and **Finding 2021-02**, partially agreed to **Finding 2021-03**, and agreed with **Finding 2021-04**. We have reviewed MSI’s responses and provided the following rebuttals:

(1) **Finding 2021-01**: MSI did not agree with the finding.

- MSI stated under the Criteria section of the finding, the audit team quotes what they are identifying as “MSI’s timekeeping policy”, this statement is not accurate. MSI stated the auditor’s quoted reference for “MSI’s timekeeping policy” is from MSI’s Field Office Personnel Manual – AMANAT which is strictly for Field office LTTA (CCN) and that employee types of questioned timesheets were all Home office staff and Field office LTTA (USN and TCN).
- MSI stated under the Cause section, the auditors state that MSI does not have an official timekeeping policy which is inaccurate and that the appropriate reference for MSI’s timekeeping policy is Tetra Tech Timecards User Guide.
- MSI states that MSI does not bill USAID for estimated hours or hours that have not yet been worked. All labor billed to USAID has occurred and has been through multiple instances of review. The approval of timecards is not the only or final time labor costs are reviewed for accuracy before they are billed to USAID.

### Auditor Rebuttal:

- The rationale for the auditors to include the MSI’s Field Office Personnel Manual – AMANAT which is strictly for [REDACTED] to show the inconsistency of timekeeping practices between [REDACTED] and [REDACTED]. As mentioned in the auditor’s Cause statement, unlike its timekeeping policies for [REDACTED] MSI allows U.S. expatriates to estimate time worked for a day prior to the period end and the supervisors to approve this time before the end of the pay period. This is an internal control weakness, and, in our Criteria section, we had quoted the internal control requirements that MSI should adhere to. Our Criteria and associated questioned costs remain unchanged.
- Conrad reviewed MSI’s Personnel Policies & Practices and there is no mention that MSI employees are required to adhere to Tetra Tech’s policies. MSI did not provide a formal policy for their own organization that allows U.S. expatriates and Third Country Nationals to estimate time worked for a day prior to the period end and the supervisors to approve this time before the end of the pay period. Our Cause and associated questioned costs remain unchanged.
- As mentioned in the Condition, Conrad found no evidence of subsequent reviews of the timesheets indicating the estimated hours were recorded correctly to reflect the actual work

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performed for the day(s) in question that were approved prior to the end of the pay period. These forecasted hours resulted in forecasted labor costs and does not reflect actual cost incurred. Therefore, our finding and recommendation remain unchanged.

- (2) **Finding 2021-02:** MSI did not accept the auditor’s recommendation and noted that an [REDACTED] is issued for all [REDACTED] and [REDACTED] staff. The [REDACTED] explains the terms of employment including project, period of performance, pay rate, benefits, allowances, and a Statement of Work. When there are any changes, [REDACTED] Amendments are issued and signed by both MSI and the employee.

**Auditor Rebuttal:**

- During the testing, we could not determine if the employee receiving the Involuntary Separate Maintenance Allowance (“SMA”) met the qualifications for SMA over the course of his employment. The employee originally signed in his renewal employment agreement that he will need SMA for his spouse and four or more children. However, as stated in the condition of this finding, we found no further evidence to determine if the employee continued to qualify for Involuntary SMA in support of the 5 payments made. Without further evidence demonstrating that the employee continued to prove their qualification, it leaves the possibility that the employee is receiving Involuntary SMA that the employee is not qualified to receive. In addition, MSI did not provide any additional supporting documentation. Therefore, our finding and recommendation remain unchanged.
- (3) **Finding 2021-03:** MSI agreed some parts of this finding.
- MSI agreed with the finding related to a double charge of travel totaling \$26 and credit was then included in MSI’s Billing Voucher submitted to USAID.
  - MSI provided receipts for Office/Supplies/Printing/Shipping expenses for that were previously missing from one consultant charge in the amount of [REDACTED]
  - MSI stated that the draft report was the first time MSI was notified that the walkthrough of alternate procedures performed by the subcontractor had generated any additional questions as to the allowability of the costs.
  - MSI disagrees with the finding related to insufficient support for consultant charge. MSI explained the alternate procedures performed where a formal invoice was not submitted which includes the Consultants preparing an Observation Form and submits the form to the Subcontractor M&E department along with either recordings of the PSAs or GPS coded photos of the event,

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depending on the event. MSI indicated that the observation form previously provided was just an example, but not specifically for the consultant. MSI provided the correct Observation Forms related to Conrad’s sample that was previously missing.

#### Auditor Rebuttal:

- In relation to the travel cost that was identified as a double charge, no rebuttal is necessary as MSI agreed with the finding.
  - Conrad reviewed the receipts provided by MSI related to Office/Supplies/Printing/Shipping expenses in the amount of [REDACTED] and determined the receipts adequately supported the cost. We have removed the associated questioned cost related to this finding condition.
  - Conrad continually communicates to MSI through a Document Request List during fieldwork, through status update calls, and during the exit conference call that the supporting documentation provided by MSI was insufficient to substantiate the consultant cost as there were no indication that an invoice or other evidence was submitted by the consultant to demonstrate the work was performed. During the exit meeting, MSI indicated that there was additional support to be provided to address this finding. We follow up with MSI one last time after the exit meeting for them to provide the additional support MSI mentioned in the exit. However, MSI still did not provide the correct observation form and had never mention an incorrect observation form was provided. However, subsequent to Conrad providing MSI the draft report, MSI submitted the correct Observation Form.
  - Conrad reviewed the Observation Forms provided by MSI related to the Consultant charge in the amount of [REDACTED] and determined the Observation Forms adequately supported the work performed. We have removed the associated questioned cost related to this finding condition. However, due to MSI not adhering to the subcontractor’s consultant agreement as noted in our Criteria that states, “INVOICING AND PAYMENT...C. Payment - Except as otherwise provided in this Agreement, invoices shall be payable by EAI within thirty (30) days after receipt of a properly rendered invoice from Consultant.” Conrad determined the condition of finding remain unchanged.
- (4) **Finding 2021-04**: MSI agrees to the finding related to an overcharge to USAID and agrees to return the overcharge to USAID. MSI states they have since then implemented policies and procedures which would ensure proper recording, reconciliation of costs, and ensure a clear audit trail to support all payments of participant stipends.

**Management Systems International, Inc.**

Financial Audit of Costs Incurred Under  
Contract No. AID-306-H-17-00003 Awarded by the  
United States Agency for International Development/Afghanistan (“USAID”) for the  
Afghanistan’s Measure for Accountability and Transparency (“AMANAT”) project

For the Period of October 1, 2018 through August 22, 2020

Auditor’s Rebuttal to MSI’s Responses to Audit Findings

Auditor Rebuttal:

No rebuttal is deemed necessary as MSI concurred with the finding and recommendation.

## SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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- Phone International: +1-866-329-8893
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## SIGAR's Mission

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