

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 23-14 Financial Audit

USAID's Assistance for Families and Indigent
Afghans to Thrive Program: Audit of Special
Purpose Financial Statement Submitted by
Management Sciences for Health Inc.



**FEBRUARY
2023**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On July 9, 2020, the U.S. Agency for International Development (USAID) awarded a 5-year, \$124,285,893 cooperative agreement to Management Sciences for Health Inc (MSH) to support the Assistance for Families and Indigent Afghans to Thrive (AFIAT) program; the award value was \$117,000,000, and included a \$7,285,893 cost sharing requirement. The program's objectives were to, among other activities, improve the quality of primary and secondary health and nutritional services in targeted rural areas of Afghanistan. USAID modified the agreement two times, which did not change the award amount or the period of performance. The first modification changed the title of the program from the National Health Technical Assistance Program (NHTAP) to AFIAT.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$9,791,699 in costs charged to the agreement from July 10, 2020, through July 31, 2021. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in MSH's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether MSH has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of MSH'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. SIGAR's review disclosed no instances where Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

February 2023

USAID's Assistance for Families and Indigent Afghans to Thrive Program:
Audit of Special Purpose Financial Statement Submitted by Management
Sciences for Health Inc.

SIGAR 23-14-FA

WHAT SIGAR FOUND

Conrad identified three significant deficiencies, two deficiencies in MSH's internal controls, and five instances of noncompliance with the terms of the agreement. For example, the auditors found that MSH charged the agreement for positions that were not listed on the approved AFIAT budget, resulting in ineligible costs being charged to the program. The auditors also found that MSH incorrectly charged the agreement for salaries that were more than the allowable amount, also resulting in ineligible costs being charged to the program. SIGAR notified MSH of these deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, Conrad identified \$113,861 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the agreement and applicable laws and regulations. Conrad did not identify any unsupported costs—costs not supported with adequate documentation or that do not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Salaries and Wages	\$63,413	\$0	\$63,413
Subawards	\$530	\$0	\$530
Indirect Costs	\$49,918	\$0	\$49,918
Total Costs	\$113,861	\$0	\$113,861

Conrad identified three prior engagements, which contained eight findings and recommendations that could have a material effect on the SPFS or other financial data significant to this audit. Although Conrad found that MSH took corrective action on the findings and recommendations, two of the issues identified in the previous engagements related to deviations from the approved budget and billing unallowable costs, issues that were again identified in this audit.

Conrad issued an unmodified opinion on MSH'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 the responsible USAID agreement officer:

1. Determine the allowability of and recover, as appropriate, \$113,861 in questioned costs identified in the report.
2. Advise MSH to address the report's five internal control findings.
3. Advise MSH to address the report's five noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

February 27, 2023

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

Mr. Sean Callahan
Mission Director, U.S. Agency for International Development

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Management Sciences for Health Inc. (MSH) under a U.S. Agency for International Development (USAID) cooperative agreement in support of the Assistance for Families and Indigent Afghans to Thrive (AFIAT) program.¹ The program's objectives were to, among other activities, improve the quality of primary and secondary health and nutritional services in targeted rural areas of Afghanistan. Conrad reviewed \$9,791,699 in costs charged to the agreement from July 10, 2020, through July 31, 2021. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$113,861 in questioned costs identified in the report.**
- 2. Advise MSH to address the report's five internal control findings.**
- 3. Advise MSH to address the report's five noncompliance findings**

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. We also inquired about Conrad's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on MSH's Special Purpose Financial Statement, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, dated January 31, 2023, and the conclusions expressed therein. However, our review disclosed no instances where Conrad did not comply, in all material respects, with U.S. 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 planned completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-243)

¹ The agreement number is 72030620CA00006.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development's Mission in
Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Table of Contents

	Page
Transmittal Letter	
Background	1
Work Performed	1
Objectives, Scope, and Methodology	2
Summary of Results	5
Review of Prior Findings and Recommendations	6
Summary of MSH's Responses to Findings	7
Independent Auditor's Report on the Special Purpose Financial Statement	8
Special Purpose Financial Statement	10
Notes to the Special Purpose Financial Statement	11
Notes to Questioned Costs Presented on the Special Purpose Financial Statement	14
Independent Auditor's Report on Internal Control	15
Independent Auditor's Report on Compliance	17
Schedule of Findings and Questioned Costs	19
Status of Prior Audit Findings	31
Appendices:	
Appendix A: MSH's Responses to Audit Findings	34
Appendix B: Auditor's Rebuttal to MSH's Responses to Audit Findings	41



January 31, 2023

Board of Directors
Management Sciences for Health, Inc.
Medford, MA

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 Sciences for Health, Inc.'s Special Purpose Financial Statement for revenues received and costs incurred under Cooperative Agreement No. 72030620CA00006 awarded by the United States Agency for International Development's Mission in Afghanistan for the period July 10, 2020 through July 31, 2021, supporting Assistance for Families and Indigent Afghans to Thrive (AFIAT).

On October 4, 2022, we provided SIGAR with a draft report reflecting our audit procedures and results. Management Sciences for Health, Inc. received a copy of the report on January 3, 2023 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 Management Sciences for Health, Inc. Additionally, Management Sciences for Health, Inc.'s responses and Conrad's corresponding rebuttals 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 Cooperative Agreement.

Sincerely,

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

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Background

On July 9, 2020, the United States Agency for International Development's Mission in Afghanistan ("USAID/Afghanistan") awarded Cooperative Agreement No. 72030620CA00006 (hereinafter referred to as "Cooperative Agreement" or "Award") to Management Sciences for Health, Inc. ("MSH") in support of the National Health Technical Assistance Program ("NHTAP"). Pursuant to Modification No. 1 of the Cooperative Agreement, MSH changed the activity name from NHTAP to Assistance for Families and Indigent Afghans to Thrive ("AFIAT").

AFIAT strives to improve the quality of primary and secondary health and nutrition services in targeted rural areas, to increase access to high impact and evidence-based health and nutrition services, and to enhance the adoption of optimal health and nutrition behaviors by communities and households. AFIAT also seeks to strengthen Afghanistan's capacity to plan, finance, and manage its private and public health systems.

The original award amount was \$117,000,000 plus a cost sharing requirement of \$7,285,893, for a total activity amount of \$124,285,893 and a period of performance from July 10, 2020 through July 9, 2025. There have been two subsequent modifications to the Cooperative Agreement, which did not have an impact on the total award amount but did swap some of the funding lines used to obligate funding to the activity. See *Summary of Cooperative Agreement* below.

Summary of Cooperative Agreement

Cooperative Agreement Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	Final Approved Budget (\$)	Start Date	End Date
72030620CA00006	\$124,285,893	07/10/20	07/09/25	\$124,285,893	07/10/20	07/09/25

Work Performed

Conrad LLP ("Conrad" and "we") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of the Special Purpose Financial Statement ("SPFS") for revenues received and costs incurred under Cooperative Agreement No. 72030620CA00006 awarded to Management Sciences for Health, Inc. for the period July 10, 2020 through July 31, 2021, with total reported incurred costs of \$9,791,699.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Objectives, Scope, and Methodology

Objectives Defined by SIGAR

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

- *The Special Purpose Financial Statement ("SPFS")* – Express an opinion on whether MSH's SPFS for the Award presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the Award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain sufficient understanding of MSH's internal controls related to the Award, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether MSH complied, in all material respects, with the Award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the Award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether MSH 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 revenues received and costs incurred under the Cooperative Agreement during the period July 10, 2020 through July 31, 2021. The total revenues received and costs incurred for the period were \$9,791,699, which included associated indirect costs. Our testing of indirect costs was limited to determining if the indirect costs were calculated in accordance with the Cooperative Agreement and/or subsequently approved Negotiated Indirect Cost Rate Agreement ("NICRA").

Methodology

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

Entrance Conference

An entrance conference was held via conference call on April 21, 2022. Participants included representatives from Conrad, MSH, SIGAR, and USAID/Afghanistan. The purpose of the entrance

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

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:

- Obtained an understanding of MSH;
- Reviewed the Cooperative Agreement and all modifications;
- Reviewed specific USAID/Afghanistan regulations that are applicable to the Cooperative Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our sampling techniques. Based on our approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the Cooperative Agreement, 2 Code of Federal Regulations Part 200 ("2 CFR 200"), 2 Code of Federal Regulations Part 700 ("2 CFR 700"), USAID Automated Directives System ("USAID ADS"), and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we did not identify any related party transactions.
 - For high-risk cost categories, we sampled transactions greater than \$49,000 not to exceed 30% of the total amount expended for each cost category.
 - For medium risk cost categories, we sampled transactions greater than \$98,000 not to exceed 20% of the total amount expended for each cost category.
 - For low-risk cost categories, we sampled transactions that are greater than \$98,000 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Internal Controls Related to the Cooperative Agreement

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

Compliance with the Cooperative Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether MSH complied, in all material respects, with the Cooperative Agreement requirements, 2 CFR 200, 2 CFR 700, USAID ADS, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested prior audit reports from MSH and reviewed these reports to determine if there were any findings and recommendations that could have a potential impact on this audit. We also conducted a search online of various governmental websites including SIGAR, USAID, and other Federal agencies, to identify previous engagements that could have a material effect on MSH's SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. Our review procedures included holding discussions with management regarding corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of items similar to those found in the prior findings. See the *Status of Prior Audit Findings* section on page 31.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

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

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Exit Conference

An exit conference was held on September 19, 2022 via conference call. Participants included representatives from Conrad, MSH, SIGAR, and USAID/Afghanistan. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

As a result of our procedures, we issued an unmodified opinion on the SPFS and identified five findings that amounted to \$113,861 in questioned costs. We have summarized the details of these results in the *Findings and Questioned Costs* subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS in all material respects, revenues earned, and costs incurred.

Internal Controls and Compliance

Conrad also reported on MSH's internal controls over financial reporting and compliance with laws, rules, and regulations, and the terms and conditions of the Cooperative Agreement. We identified two deficiencies and three significant deficiencies in MSH's internal controls, and five instances of non-compliance. 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*.

In response to the identified instances of internal control deficiencies and non-compliance, we identified a total of \$113,861 in ineligible costs. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the award provisions or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations. The following summarizes the audit results:

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2022-01	Non-Compliance; Internal Control – Significant Deficiency	Personnel positions charged to the Award are not listed in the approved budget	\$ 111,621	\$ -	\$ 111,621

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development’s Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

2022-02	Non-Compliance; Internal Control – Significant Deficiency	Employees were paid in excess of the respective National Technical Assistance (NTA) salary amount	1,581	-	113,202
2022-03	Non-Compliance; Internal Control – Significant Deficiency	MSH incorrectly charged a Subaward overbilling and travel related penalty fees to the Award	659	-	113,861
2022-04	Non-Compliance; Internal Control – Deficiency	MSH was unable to provide the required purchase order for three consultant transactions	-	-	113,861
2022-05	Non-Compliance; Internal Control – Deficiency	Evidence of employee enrollment in the Smart Traveler Enrollment Program (STEP) was not maintained	-	-	113,861
Total Questioned Costs			\$ 113,861	\$ -	\$ 113,861

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to MSH’s activities under the Cooperative Agreement, we identified three (3) prior engagements which contained eight (8) combined findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have reviewed the corrective actions taken to address these findings and recommendations. Based on our review and inquiries, MSH took adequate corrective actions on all the prior audit findings and recommendations; however, we did note a similar issue pertaining to deviations from the approved budget as described at Finding No. 2022-01 and we did note a similar issue pertaining to consultants billing unallowable costs as described at Finding No. 2022-04. See *Status of Prior Audit Findings* on page 31 for a detailed description of the prior findings and recommendations.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Summary of MSH's Responses to Findings

The following represents a summary of the responses provided by MSH to the findings identified in this report. The complete responses received can be found at *Appendix A* starting at page 34 of this report.

- **Finding No. 2022-01:** MSH disagreed with the finding and indicated that under the Cooperative Agreement, staffing is at the discretion of the Implementing Partner. MSH maintained that per 2 CFR 200.308 and 2 CFR 200.430, personnel-related expenses for addition of positions or change of staff does not require prior approval in order to be considered allowable. Additionally, MSH maintained that the costs associated with the employees' salaries are reasonable and necessary as defined by 2 CFR 200.403, and 2 CFR 200.404.
- **Finding No. 2022-02:** MSH agreed with the finding regarding employees being paid in excess of the respective National Technical Assistance (NTA) salary amount. MSH indicated that these were one-off omissions that occurred at the start of the program when the number of staff in HR was limited. A credit entry was made to the AFIAT project for the \$1,115 of questioned costs related to this finding.
- **Finding No. 2022-03:**
 - MSH agreed with the \$400 questioned cost related to the overbilling by a subcontractor. A credit of \$400 was issued in the subsequent invoice from the subcontractor.
 - MSH disagreed with the \$130 questioned cost related to the billing of travel costs from a subcontractor. MSH stated the cost was incurred for an air travel ticket change fee and not a penalty fee. The cost was to change the date of a purchased air travel ticket due to delays in issuance of a visa. Since the cost was for a change fee rather than a penalty fee, MSH maintains the position that the cost was a legitimate charge to the AFIAT project.
- **Finding No. 2022-04:** MSH agreed with the finding regarding lack of documentation of Purchase Orders. MSH indicated that these were isolated incidents at the start-up phase of the AFIAT project. MSH will ensure that Purchase Orders will be attached as part of the expense support in all such circumstances. MSH revised their Financial Manual to explicitly cover this issue to ensure that future exceptions are avoided.
- **Finding No. 2022-05:** MSH agreed that sufficient documented evidence of employee enrollment in STEP was not maintained. MSH indicated that a system for tracking and archiving STEP verification reports was implemented since November 2022.



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Management Sciences for Health, Inc.
Medford, MA

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Management Sciences for Health, Inc. ("MSH") and the related notes to the Special Purpose Financial Statement, with respect to United States Agency for International Development's Mission in Afghanistan Award No. 72030620CA00006, Assistance for Families and Indigent Afghans to Thrive (AFIAT), for the period July 10, 2020 through July 31, 2021.

Management's Responsibility for the 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 Cooperative Agreement and the Office of the Special Inspector General for 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 MSH'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 MSH'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 audit opinion.

Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred, and balances for the indicated period in accordance with the terms of the Cooperative Agreement, for the period July 10, 2020 through July 31, 2021 and in conformity with the basis of accounting described below.

Basis of Presentation and Accounting

We draw attention to Notes 2 and 3 to the Special Purpose Financial Statement, which describes the basis of presentation and the basis of accounting. As described in Note 2 to the Special Purpose Financial Statement, the statement is prepared by MSH on the basis of the requirements provided by the Cooperative Agreement, which is a basis of presentation other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated January 31, 2023 on our consideration of MSH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, Cooperative Agreement, 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 MSH's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Management Sciences for Health, Inc., the United States Agency for International Development's Mission in 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. 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. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public.

Conrad LLP

Lake Forest, California
January 31, 2023

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
 Cooperative Agreement No. 72030620CA00006
 Awarded by the United States Agency for International Development's Mission in Afghanistan
 Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

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:						
Cooperative Agreement No. 72030620CA00006	\$117,000,000	\$9,791,699	\$ -	\$ -	\$ -	(5)
Total Revenue	<u>117,000,000</u>	<u>9,791,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs Incurred:						
Salaries and wages	25,287,886	3,572,181	63,413	-	63,413	(A)
Allowances	4,556,363	647,216	-	-	-	
Fringe Benefits	3,269,890	74,872	-	-	-	
Travel & Transportation	7,450,921	281,453	-	-	-	
Equipment/Supplies	2,724,167	227,766	-	-	-	
Subawards	26,070,614	1,034,590	530	-	530	(B)
Consultants	725,917	137,840	-	-	-	
Other Direct Costs	19,309,996	1,076,629	-	-	-	
Security Dosts	8,361,149	687,287	-	-	-	
Indirect Costs	<u>19,243,097</u>	<u>2,051,865</u>	<u>49,918</u>	<u>-</u>	<u>49,918</u>	(C)
Costs Incurred Sub-Total	117,000,000	9,791,699	<u>\$ 113,861</u>	<u>\$ -</u>	<u>\$ 113,861</u>	
Cost Share	<u>7,285,893</u>	<u>-</u>				
Total Costs	<u>124,285,893</u>	<u>9,791,699</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 Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Notes to the Special Purpose Financial Statement¹

(1) **Background**

Management Sciences for Health, Inc. (MSH) was established in 1971 to support the development and application of management concepts in the fields of public health and preventive medicine throughout the world. The Organization has United States (U.S.) offices in Massachusetts and Virginia, and field offices in various developing countries.

On July 10, 2020, the United States Agency for International Development (USAID) awarded MSH Cooperative Agreement No. 72030620CA00006. The Assistance for Families and Indigent Afghans to Thrive (AFIAT) strives to improve the quality of primary and secondary health and nutrition services in targeted rural areas; increase access to high-impact and evidence-based health and nutrition services; enhance adoption of optimal health and nutrition behaviors by communities and households; and strengthen the Government of the Islamic Republic of Afghanistan (GOA) commitment and capacity to plan, finance, and manage the health system in both the public and private sectors.

(2) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (SPFS) presents revenue and expenses incurred under the AFIAT program for the period July 10, 2020 through July 31, 2021. Additionally, costs incurred by MSH prior to the start date of the project (July 10, 2020) were approved by USAID for charging under the Agreement and, thus, are also included in the SPFS.

(3) **Basis of Accounting**

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

(4) **Foreign Currency Conversion Method**

The U.S. dollar (USD) is considered to be the functional currency of MSH's operations, including the AFIAT program. Transactions in currencies other than USD have been translated into USD at the applicable exchange rates. For revenue and expense items, translation is performed monthly using the average rate for the month (per publicly available rates).

(5) **Revenue**

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014,09, Revenue from Contracts with Customers (Topic 606 or ASC 606). Topic 606 provides a single comprehensive revenue recognition framework and supersedes existing revenue recognition guidance. MSH adopted the standard for the period ended June 30, 2021

¹The Notes to the Special Purpose Financial Statement are the responsibility of Management Sciences for Health, Inc.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Notes to the Special Purpose Financial Statement¹

and applied the modified prospective method of adoption. Under the modified prospective method, MSH revenues reported through July 30, 2021 recognized the cumulative effect of applying the standard as to this fiscal period and applied to the Revenue reported on the SPFS. Revenue reflected on the SPFS matches amounts reported on quarterly Federal Financial Reports (Forms SF 425) without exception. Total revenue earned for the period of July 10, 2020 through July 31, 2021 is \$9,791,699. Actual cash receipts received from USAID totaled \$9,580,615 for the period of July 10, 2020 through July 31, 2021.

(6) Costs Categories

The budget categories presented, and the associated actual expense amounts, match the budget line items presented in the Cooperative Agreement. These categories include typical expense groupings with one exception. Security costs are presented separately and can reflect labor, fringe, and other categories. Security costs are determined to be those directly related to time and expense needed to keep facilities, staff, and operations safe and secure in the Afghanistan environment.

(7) Cost Share

Cooperative Agreement No 306-72030620CA000006, signed by USAID and MSH, contains cost share requirement of \$2,340,000 over the life of the project activity. As of the end of the audit period, July 31, 2021, MSH recorded \$0 in cost share. However, the cost share requirement is expected to be fulfilled prior to the project performance end date of July 9, 2025, in compliance with the terms of the Cooperative Agreement and 2 CFR 200.306.

(8) Balance

The balance presented on the SPFS represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect revenues that have been earned which exceed the costs incurred or charged to the Agreement and an amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

(9) Program Status

The AFIAT program started July 10, 2020 and has a five-year performance period, ending July 9, 2025.

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Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Notes to the Special Purpose Financial Statement¹

(10) Indirect Costs

MSH has an approved Negotiated Indirect Cost Rate Agreement (NICRA) with the following provisional rates applicable to the period of the SPFS:

Type	Effective Period		Indirect Cost Rate				
	From	Through	Fringe Benefits (a)	Overhead (b)	Employee Overhead (c)	Consultant & Foreign Professional Overhead (d)	G&A (e)
Provisional	07/01/19	Until Amended	26.40%	14.03%	N/A	N/A	24.31%

On 06/10/2021, MSH received forgiveness for the Payroll Protection Program (PPP) loan and allocated \$372,376 to this Award pursuant to USAID's directive. The indirect costs reported on the SPFS is the net amount after the PPP credit was applied.

(11) Subsequent Events

MSH Management has performed an analysis of the activities and transactions subsequent to the July 10, 2020 through July 31, 2021 period covered by the SPFS. This analysis was performed through January 31, 2023.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of Management Sciences for Health, Inc.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Salaries & Wages

MSH reported a total of \$3,572,181 in Salaries and Wages for the period July 10, 2020 through July 31, 2021.

During our audit of these costs, we noted that MSH charged two personnel positions that are not listed in the approved budget. In addition, MSH paid employees in excess of the allowable respective NTA salary amount. As a result of these findings, we questioned a total of \$63,413 in ineligible costs – comprised of \$62,298 from **Finding No. 2022-01** and \$1,115 from **Finding No. 2022-02**.

(B) Subawards

MSH reported a total of \$1,034,590 in Subaward costs for the period July 10, 2020 through July 31, 2021.

During our audit of these costs, we noted that the sub-awardee overbilled MSH and charged penalty fee costs related to travel. As a result of these findings, we questioned a total of \$530 in ineligible costs as described in **Finding No. 2022-03**.

(C) Indirect Costs

MSH reported a total of \$2,051,865 in Indirect Costs for the period of July 10, 2020 through July 31, 2021. The indirect costs associated with the questioned costs identified in **Notes A** and **B** above resulted in total questioned indirect costs of \$49,918.

² The 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 Sciences for Health, Inc.
Medford, MA

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

We have audited, the Special Purpose Financial 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 Sciences for Health, Inc. ("MSH") under United States Agency for International Development's Mission in Afghanistan Award No. 72030620CA00006, Assistance for Families and Indigent Afghans to Thrive (AFIAT), for the period July 10, 2020 through July 31, 2021. We have issued our report thereon dated January 31, 2023 with an unmodified opinion.

Internal Control over Financial Reporting

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

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

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

described in the accompanying *Schedule of Findings and Questioned Costs* section of this report. **Finding Nos. 2022-04 and 2022-05** are considered to be deficiencies and **Finding Nos. 2022-01, 2022-02, and 2022-03** are considered to be significant deficiencies.

MSH's Response to Findings

MSH's response to the findings identified in our audit is included verbatim at the *Appendix A* section. MSH'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 MSH'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 Management Sciences for Health, Inc., the United States Agency for International Development's Mission in 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.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California
January 31, 2023



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Management Sciences for Health, Inc.
Medford, MA

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

We have audited, the Special Purpose Financial 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 Sciences for Health, Inc. ("MSH") under United States Agency for International Development's Mission in Afghanistan Award No. 72030620CA00006, Assistance for Families and Indigent Afghans to Thrive (AFIAT), for the period July 10, 2020 through July 31, 2021. We have issued our report thereon dated January 31, 2023 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSH's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the Cooperative Agreement, noncompliance with which could have a direct and material effect on the determination of Special Purpose 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. Evidence of possible fraud or abuse was not indicated by our testing. The results of our tests disclosed five instances of non-compliance 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 **Finding Nos. 2022-01, 2022-02, 2022-03, 2022-04, and 2022-05.**

MSH's Response to Findings

MSH's response to the findings identified in our audit is included verbatim at the *Appendix A* section. MSH'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 compliance. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Management Sciences for Health, Inc., the United States Agency for International Development's Mission in 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
January 31, 2023

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development’s Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

Finding No. 2022-01: Personnel positions charged to the Award are not listed in the approved budget

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

Condition: Conrad tested Salaries and Wages for 12 Headquarter employees valued at \$1,251,570 out of a population of 54 employees with wages valued at \$1,483,560. During our testing to determine if Salaries and Wages incurred under the Award were adequately supported, accurate, and properly approved, we noted MSH charged costs to the Award for two positions that were not specifically listed in the approved budget. This resulted in ineligible costs of \$62,298, as shown below:

Position	Cost Incurred during Audit Period per General Ledger
Principal Technical Advisor	\$ 39,567
Contract Specialist	22,731
Total	\$ 62,298

Criteria:

Cooperative Agreement No. 72030620CA00006, Section A.4 – Award Budget, states in part:

“(c) Revision of Budget:

- *Reporting of Deviations from Budget Plan*
The summary budget set forth in paragraph A.4(a) ...is based on the detailed budget that the Recipient submitted with its application for this Award. In accordance with 2 CFR 200.308, the Recipient is required to report deviations from the approved budget and request prior approvals for budget revisions.
- *Prior Approval of Certain Revisions to Budget Plan*
In accordance with 2 CFR 200 the Recipient shall request prior approval from the USAID Agreement Officer for the specific budget revisions described in 2 CFR 200.308.”

2 CFR 200.308, Revision of budget and program plans, states in part:

“(a) The approved budget for the Federal award summarizes the financial aspects of the project or program as approved during the Federal award process. It may include either the Federal and non-Federal share or only the Federal share, depending upon Federal awarding agency requirements. The budget and programs plans include considerations for performance and program evaluation purposes whenever required in accordance with the terms and conditions of the award.

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

(b) Recipients are required to report deviations from budget or project scope or objectives, and request prior approvals from Federal awarding agencies for budget and program plan revisions, in accordance with this section.

(c) For non-construction Federal awards, recipients must request prior approvals from Federal awarding agencies for the following program or budget-related reasons:

... (4) The inclusion, unless waived by the Federal awarding agency, of costs that require prior approval in accordance with subpart E of this part as applicable...

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

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

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles*
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items*
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity...*
- (g) Be adequately documented...*

Cause: MSH stated that such deviations are not required to be reported to and approved by the funding agency. Moreover, MSH considers staffing to be at the discretion of the Implementing Partner and that the Cooperative Agreement does not prohibit the creation of new positions.

Effect: The U.S. Government funded wages and salaries were not approved in the applicable Award budget and were not pre-authorized by the funding agency. Positions that are approved may result in positions that are not necessary or irrelevant for the project.

Questioned Costs: Ineligible costs identified totaled \$111,621, of which \$62,298 represents salaries and \$49,323 represents associated indirect costs.

Recommendation:

- (1) We recommend that MSH provide USAID with supporting documentation demonstrating the allowability of the costs identified or return \$111,621 in ineligible costs.
- (2) We recommend that MSH provide additional guidance to its management and staff that budget deviations should be approved in advance from the contracting officer as described in the terms of the Cooperative Agreement and be adequately documented as stated in the CFR.

(Continued)

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development’s Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

Finding No. 2022-02: Employees were paid in excess of the respective National Technical Assistance (NTA) salary amount

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

Condition: Conrad tested 98 Salaries and Wages transactions valued at \$431,683 out of population of 1,954 valued at \$1,660,761, which included 68 local employees. During our testing to determine if Salaries and Wages incurred under the Award were adequately supported, accurate, and properly approved, we noted three employees were paid in excess of the NTA salary scale step/grade amount. Based on our testing, we noted:

- (1) For one employee, the employment agreement stated that the employee’s salary, which was based on Grade D Step 1 of the NTA salary scale, received 43,667 AFN per month. Based on our review of MSH’s internal compensation detail for this employee, it was noted that the employee received a salary increase to 66,333 AFN per month effective June 21, 2021, which was equal to the high level of Grade D Step 3 of the NTA salary scale. MSH was unable to provide documentation of the app e from to Grade D Step 1 to Step 3. As such, we are questioning a total cost of 22,666 AFN or \$290 which relates to the period of June 21, 2021 through July 20, 2021, as shown below:

NTA Salary – Grade D Step 3 (High)	NTA Salary – Grade D Step 1 (High)	Questioned Cost in AFN	Pay Period Questioned	Questioned Cost in USD
66,333 AFN	43,667 AFN	22,666 AFN	6/21/21 – 7/20/21	\$ 290

- (2) For one employee, the employment agreement stated that the employee’s salary, based on Grade C Step 4 of the NTA salary scale, was 134,400 AFN per month effective April 7, 2021. This amount of pay, however, exceeded the range of pay allocated to this salary grade and step. The NTA pay range for this grade and step was 118,667 to 125,778 AFN. Instead, the salary of 134,400 AFN per month fell in between the low and high levels of Grade C Step 5. MSH was unable to provide documentation of the approved increase for this employee from to Grade C Step 4 to Step 5. As such, we are questioning a total cost of 29,615 AFN or \$380 for the period of April 7, 2021 through July 20, 2021, as shown below:

Salary per Employment Agreement	NTA Salary – Grade C Step 4 (High)	Questioned Cost in AFN	Pay Period Questioned	Questioned Cost in USD
134,400 AFN	125,778 AFN	3,749 AFN	4/7/21 – 4/20/21	\$ 48
134,400 AFN	125,778 AFN	8,622 AFN	4/21/21 – 5/20/21	111
134,400 AFN	125,778 AFN	8,622 AFN	5/21/21 – 6/20/21	111
134,400 AFN	125,778 AFN	8,622 AFN	6/21/21 – 7/20/21	110

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development’s Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

Totals		29,615 AFN		\$ 380
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(3) For one employee, the employment agreement stated that the employee’s salary, based on Grade A Step 4 of the NTA salary scale, was 287,500 AFN per month effective August 16, 2020. This amount of pay, however, exceeded the range of pay allocated to this salary grade and step. The NTA pay range for this grade and step was 266,667 AFN and 284,444 AFN. MSH was unable to provide evidence that would substantiate that the 287,500 salary complied with the NTA salary scale. As such, we are questioning a total cost of 34,280 AFN or \$445 for the period of August 16, 2020 through July 20, 2021, as shown below:

Salary per Employment Agreement	NTA Salary – Grade A Step 4 (High)	Questioned Cost in AFN	Pay Period Questioned	Questioned Cost in USD
143,750 AFN	142,222 AFN	664 AFN	8/16/20 – 8/20/20	\$ 9
287,500 AFN	284,444 AFN	3,056 AFN	8/21/20 – 9/20/20	40
287,500 AFN	284,444 AFN	3,056 AFN	9/21/20 – 10/20/20	40
287,500 AFN	284,444 AFN	3,056 AFN	10/21/20 – 11/20/20	40
287,500 AFN	284,444 AFN	3,056 AFN	11/21/20 – 12/20/20	40
287,500 AFN	284,444 AFN	3,056 AFN	12/21/20 – 1/20/21	40
287,500 AFN	284,444 AFN	3,056 AFN	1/21/21 – 2/20/21	40
287,500 AFN	284,444 AFN	3,056 AFN	2/21/21 – 3/20/21	40
287,500 AFN	284,444 AFN	3,056 AFN	3/21/21 – 4/20/21	39
287,500 AFN	284,444 AFN	3,056 AFN	4/21/21 – 5/20/21	39
287,500 AFN	284,444 AFN	3,056 AFN	5/21/21 – 6/20/21	39
287,500 AFN	284,444 AFN	3,056 AFN	6/21/21 – 7/20/21	39
Totals		34,280 AFN		\$ 445

Criteria:

MSH Field Office Finance Procedures Manual, Section 1.2 – Finance and Compliance Responsibilities, states in part:

“The Chief Financial Officer (CFO) who oversees teams based in HQ USA, Regional Management Unit Nigeria and Country Offices leads the finance and operations function. Finance and operations are responsible for providing a range of services in support of MSH’s mission. Finance related services include providing accurate, complete and timely financial information and analysis to both internal stakeholders and external donors/local governments/others, ensuring that appropriate financial controls are in place across the organization, processing AP payments, managing treasury and cash, processing payroll for staff and ensuring compliance to MSH policies and procedures, Donor regulations and local government regulations.”

MSH Record Retention Policy, states in part:

(Continued)

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

"3. Policy Statements

- *MSH records should be maintained in electronic format whenever possible...*
- *Network drives and synchronized files are backed-up daily and the backup media is sent to an offsite storage location on a weekly basis..*
- *MSH records must be retained for as long as they are needed for the operation of the business or as required by law.."*

Cooperative Agreement No. 72030620CA00006, Section A.17.11 – Compensation for Cooperating Country Nationals (CCNS) in Afghanistan, states in part:

"The Standard Provision for Non-US Nongovernmental Organizations...states that "the recipient will be reimbursed for costs incurred in carrying out the purposes of this award in accordance with the terms of this award and the applicable cost principles in effect on the date of this award." With this in mind, and in accordance with CFR 200.430(b), from the effective date of Implementing Partner Notice #OAAIP-2016-001, the rates from the National Technical Assistance Salary Scale and Implementing Guideline (NTA) are to be used as the measurement for reasonableness of compensation in the Afghanistan labor market for all Cooperating Country Nationals (CCN)."

USAID Afghanistan Salary Harmonization Letter, Compensation for Cooperating Country Nationals (CCNS) in Afghanistan, states in part:

"Assistance (grants, cooperative agreements, collaboration agreements) with U.S.-based implementing partners

Effective July 29, 2016, for Assistance awards with U.S. based implementing partners, compensation for CCN employees working for IPs will be considered reasonable under 2 CFR 200.430 to the extent that it is consistent with the rate assigned by the NTA scale for similar work.

Because USAID has determined that supporting the GIRoA's salary harmonization efforts is good development policy, recipients of USAID assistance awards are expected to cooperate to achieve this important development objective. USAID will consider an implementing partner's collaboration in this effort as highly desirable when reviewing applications for future awards."

2 CFR 200.303, Internal Controls, states in part:

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

Cause: MSH Finance and Compliance teams did not have or maintain appropriate documentation to demonstrate proper adherence to the increase in NTA salary scale for the personnel in questions.

(Continued)

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

Effect: Lack of having and maintaining appropriate documentation to support the increase in NTA salary scale results in the U.S. government will overpay for labor charges.

Questioned Costs: Ineligible costs identified totaled \$1,581, of which \$1,115 represents salaries and \$466 represents associated indirect costs.

Recommendation:

- (1) We recommend that MSH provide sufficient documentation to demonstrate that the employees in question were paid at the appropriate NTA salary scale rate or return \$1,678 to the U.S. Government for the ineligible costs.
- (2) We recommend that MSH develop additional guidance to strengthen management's review and oversight over the application of salaries in accordance with the NTA salary scale.

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

Finding No. 2022-03: MSH incorrectly charged a Subaward overbilling and travel related penalty fees to the Award

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

Condition: Conrad tested 10 Subaward transactions valued at \$383,525 out of a population of 177 transactions valued at \$1,034,590. During our testing to determine if the costs incurred under the Award were adequately supported, accurate, allowable, and properly approved, we noted one instance where a Sub-awardee overbilled MSH by \$400 for consultant fees and one instance where a Sub-awardee charged an airfare change penalty fee of \$130 that was assessed due to a delay in the issuance of a travel visa.

Criteria:

MSH Subaward Assessment, Mitigation and Monitoring Policy, states in part:

“3. Policy Statements

Assessing - MSH shall assess the risk of each subaward it issues or names on a proposal to help gauge the appropriate level of monitoring MSH will conduct during the life of the subaward...

Mitigation and Monitoring - During project implementation, the Project Director is accountable for ensuring staff are assigned to monitor compliance, technical, and financial activity under each subaward. The MSH Contract Officer is responsible for assigning a Subaward Administrator to each subaward. Subaward Administrators must coordinate the development of a Subaward Mitigation and Monitoring Plan for every subaward issued by MSH with the staff assigned to monitor compliance, technical, and financial activities. The Subaward Mitigation and Monitoring Plan shall outline techniques that appropriately monitor compliance, technical, and financial activities to ensure 1) that subaward funds are used for authorized purposes, in accordance with the subaward budget and SOW and in compliance with applicable laws, donor regulations, and the terms and conditions of the subaward, and 2) that the subaward performance goals are achieved. The monitoring techniques and frequency of their use described in the Subaward Mitigation and Monitoring Plan shall be based on the level of risk of the subaward...”

2 CFR 200.303, Internal Controls, states in part:

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

(Continued)

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

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

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

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles*
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items*
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity...*
- (g) Be adequately documented...”*

2 CFR 200.441, Fines, penalties, damages, and other settlements, states:

“Costs resulting from non-Federal entity violations of, alleged violations of, or failure to comply with, Federal, state, tribal, local, or foreign laws and regulations are unallowable, except when incurred as a result of compliance with specific provisions of the Federal award, or with prior written approval of the Federal awarding agency.”

Cause: MSH lacked adequate management review over low-risk Sub-awardee billings. MSH's management stated that the Sub-awardee was assessed as low risk and that detailed support documentation was not required to accompany the billings. In addition, MSH stated that the airfare penalty fee was a justified cost as the cost was incurred due to unexpected delay in obtaining a travel visa.

Effect: The U.S. Government may have overpaid for costs that were ineligible for payment, incorrectly billed, and were explicitly disallowed by the Federal Regulations. The lack of an adequate review process for Sub-award billings increases the risk that award funds will not be used for the intended purpose and increases the risk of fraud, waste, and abuse.

Questioned Costs: Ineligible costs identified totaled \$659, of which \$530 represents Subaward costs and \$129 in associated indirect costs.

Recommendation:

- (1) We recommend that MSH provide USAID with supporting documentation demonstrating the allowability of the costs identified or return \$659 of ineligible costs to USAID.
- (2) We recommend that MSH develop guidance to strengthen management's review and oversight over low-risk Sub-awardee billings to ensure proper verification of costs billed and to avoid incorrect or disallowed charges.

(Continued)

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

Finding No. 2022-04: MSH was unable to provide the required purchase order for three consultant transactions

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

Condition: Conrad tested 12 Consultant transactions valued at \$49,873 out of population of 81 transactions valued at \$137,840. During our testing to determine if the costs incurred under the Award were adequately supported, accurate, allowable, and properly approved, we noted three (3) instances where MSH was not able to provide a required Purchase Order form. However, MSH was able to provide all other transaction support documentation to substantiate the cost; as such, we did not question any costs related to these transactions.

Criteria:

MSH Field Office Finance Procedures Manual, Section 5.3 – Applicable QBO Modules used by MSH, states in part:

“Purchase Order: This function is part of the Procurement to Pay Module and issued to engage vendors and consultants. The procurement team are trained to create Purchase Orders online.”

MSH Field Office Finance Procedures Manual, Section 5.5 – Procurement to Pay Process Requirements in QBO – 3-Way Match Controls, states in part:

“The ‘three-way match’ concept refers to matching three critical documents in the procurement to pay process. This includes a) the Purchase Order (PO) – commitment or confirmation of an order to a vendor b) Good Received Note (GRN) – proof or confirmation of goods are received, or services rendered c) Vendor Invoice – which request for payment for a Purchase. Before an invoice is paid, Accounts Payable reviews the quantities, prices, and terms to ensure that what is ordered (via the purchase order) matches the goods received (via the order receipt/packing slip) which matches what they are being charged (via the invoice). If any issues are found – inaccurate quantities, wrong prices, damaged goods, or more, payment is not sent until the issue is rectified. Once the invoice has been validated by the three-way matching process, payment is made according to terms.”

MSH Records Retention Policy, Standard Retention Periods, states in part:

*“MSH standard retention period is eight (8) years from:
...the end date of the funding agreement for all project/award records other than financial records...”*

(g) Be adequately documented....”

(Continued)

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

2 CFR 200.334, Retention Requirements for Records, states in part:

“Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report...”

Cause: MSH did not provide adequate management oversight to ensure adherence to its internal procurement policies regarding maintenance and retention of purchase orders.

Effect: Lack of adherence to the appropriate procurement policies and procedures increases the risk that the federal government will overpay for goods and services received or will pay for goods and services that are unrelated to the project.

Questioned Costs: No costs were questioned as a result of this finding.

Recommendation:

- (1) We recommend that MSH develop and implement additional guidance to ensure proper maintenance and retention of all required procurement documentation.

(Continued)

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

Finding No. 2022-05: Evidence of employee enrollment in the Smart Traveler Enrollment Program (STEP) was not maintained

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

Condition: Conrad tested 12 out of the 54 Headquarter employee files valued at \$1,251,570 out of a population of \$1,43,560 to determine if the employees were in compliance with the terms of the Cooperative Agreement and if the costs incurred were adequately supported, allowable, accurate, and properly approved. Based on our testing, we noted two (2) instances where MSH did not document enrollment in the Smart Traveler Enrollment Program (STEP) for employees with American citizenship to ensure they were registered prior to their travel to Afghanistan.

Criteria:

Cooperative Agreement No. 72030620CA00006, Section A.17.4 – Smart Traveler Enrollment Program (STEP), states in part:

“The Implementing Partner (IP) must enroll all American citizens traveling to Afghanistan in STEP at www.travel.state.gov. Information provided must be accurate and up-to-date and is applicable to both long-term and short-term travel funded by USAID.”

MSH Records Retention Policy, Standard Retention Periods, states in part:

*“MSH standard retention period is eight (8) years from:
...the end date of the funding agreement for all project/award records other than financial records...”*

2 CFR 200.334, Retention requirements for records, states in part:

“Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report...”

Cause: MSH delegated the STEP enrollment responsibilities to its employees but did not require them to provide documentation showing enrollment; in addition, supervisory review did not ensure all applicable employees had been enrolled prior to their departure to Afghanistan.

Effect: MSH's lack of records management and supervisory review as it relates to the enrollment in STEP resulted in the inability for U.S. Embassy in Afghanistan to better assist U.S. Citizen aboard in an emergency and a violation of the Cooperative Agreement provision.

Questioned Costs: No costs were questioned as a result of this finding.

Management Sciences for Health, Inc.

Financial Audit of Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Schedule of Findings and Questioned Costs

Recommendation:

- (1) We recommend that MSH develop and implement policies and procedures pertaining to STEP enrollment to ensure evidence of employee enrollment into STEP were obtained and maintained by MSH.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Status of Prior Audit Findings

We requested prior audit reports from MSH and SIGAR. We also conducted our own research for any prior engagements including audits, reviews, and evaluations pertinent to MSH's activities. We identified three (3) prior audit reports that contained eight (8) prior findings that we believe could have material effect on the SPFS and other financial data significant to the audit objectives. Our review procedures included a follow up discussion with MSH's management, as well as conducting similar tests surrounding the identified areas during our current audit. We have summarized the results of our procedures below:

(1) SIGAR Financial Audit 17-50 (USAID's Strengthening Pharmaceutical Systems Program: Audit of Costs Incurred by Management Sciences for Health Inc.) – An audit of costs for the period of July 1, 2014 through June 30, 2016.

Finding 2017-1: Consultant costs in excess of the approved budget

Issue: Total consultant costs charged to the Cooperative Agreement exceeded the budgeted amount for such costs. No evidence was provided to indicate that MSH had sought or received permission from the Agreement Officer to exceed the maximum budgeted amount for consultants. However, even though consultant costs exceeded the budget, MSH did not exceed the Cooperative Agreement budget in total. This resulted in questioned costs of \$840,978.

Status: MSH did not agree with the finding or how it was presented and feels that the auditor incorrectly interpreted the regulation regarding 'prior budget approval'. MSH believes that they are allowed a 10% line item flexibility per the CFR and did not need to seek donor approval. Based on our testing for the current engagement, we concluded that MSH has taken adequate corrective action on this finding; however, we did note a similar issue pertaining to deviations from the approved budget as described at **Finding No. 2022-01**.

Finding 2017-2: Management review of bank reconciliations

Issue: MSH performed bank reconciliations on a timely basis. However, evidence of review and approval of the bank reconciliations was not documented. This finding did not result in any questioned costs.

Status: MSH agreed that review and approval of the bank account reconciliations needs to be documented. However, MSH does believe that the reconciliations are appropriately reviewed. Based on our testing for the current engagement, we concluded that MSH has taken adequate corrective action on this finding.

(2) SIGAR Financial Audit 19-52 (USAID's Strengthening Pharmaceutical Systems Program: Audit of Costs Incurred by Management Sciences for Health Inc.) – An audit of costs for the period of July 1, 2016 through December 28, 2017.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Status of Prior Audit Findings (Continued)

Finding 2019-01: Danger pay and travel cost allocation for employees was not revised to reflect actual amount of time spent on the program

Issue: Four MSH employees tested did not have their estimated danger pay revised to reflect actual time spent on the program. This resulted in questioned costs of \$59,353.

Status: MSH agreed with this finding. MSH has processed a credit to the donor for the appropriate amount. The allowance allocation internal procedures have been reinforced with the personnel responsible for performing the cost allocation on a regular basis. Based on our testing for the current engagement, we concluded that MSH has taken adequate corrective action on this finding

Finding 2019-02: Overhead rates claimed in FY 2018 were not approved by USAID

Issue: MSH claimed 126.34% for employee overhead and 70.52% for consultant & foreign professional overhead, which were higher than the approved provisional Negotiated Indirect Cost Rate Agreement ("NICRA") rates of 117.97% and 65.63%, respectively. MSH stated that they had submitted an application to modify their NICRA rate based on the results of their audited consolidated financial statements under Uniform Guidance for the year ended June 30, 2018 but had not yet been approved by USAID. MSH further stated they billed USAID for overhead expenses based on the results of the audit that reflected their actual overhead rates instead of the approved provisional rates. This resulted in questioned costs of \$57,521.

Status: MSH did not agree with the finding. MSH stated that they received confirmation of the provisional rates which are the fiscal year end indirect rates charged to the donor. Thus, the amounts invoiced and drawn were correct. Based on our testing for the current engagement, we concluded that MSH has taken adequate corrective action on this finding

Finding 2019-03: Consultant cost not related to the program and erroneously charged to the program

Issue: There was one instance where a consultant's fee was charged to the program, but was related to another project. This resulted in questioned costs of \$1,511.

Status: MSH agreed with this finding. MSH indicated that this was an isolated error and that are several layers of controls to reduce the likelihood of errors. A credit had been issued to the donor. Based on our testing for the current engagement, we concluded that MSH has taken adequate corrective action on this finding; however, we did note a similar issue pertaining to consultants billing unallowable costs as described at **Finding No. 2022-04**.

(Continued)

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

Status of Prior Audit Findings (Continued)

Finding 2019-04: Subcontractor sole source justification not signed by preparer per MSH procurement policy

Issue: A major subcontractor's sole source justification form was completed with the required information, but was not signed by the preparer, pursuant to MSH procurement policy. This did not result in any questioned costs.

Status: MSH agreed with this finding. MSH indicated that the process for the sole source justification was followed, however; the document was not signed and that this is an isolated incident. Based on our testing for the current engagement, we concluded that MSH has taken adequate corrective action on this finding.

Finding 2019-05: Closeout procedures not followed per terms of the Cooperative Agreement

Issue: The closeout plan was submitted one day past the due date. MSH failed to obtain written approval of closeout plan, per the terms of the Cooperative Agreement. This did not result in any questioned costs.

Status: MSH agreed with this finding. MSH stated that the closeout procedures were followed, however; the closeout plan was submitted one day late and MSH did not obtain written approval of the plan. Based on our testing for the current engagement, we concluded that MSH has taken adequate corrective action on this finding

(3) Consolidated Financial Statements, Supplemental Information, Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and the Uniform Guidance for the Year Ended June 30, 2019.

Finding 2019-001: Information on compliance requirement: Procurement

Issue: Auditors were informed by MSH management about various fraud cases that were investigated and reported by MSH Internal Audit and also disclosed to USAID, which indicated possible collusion of supplier and Management Sciences for Health staff. The losses were wholly reimbursed to the USAID project by MSH. This did not result in any questioned costs.

Status: MSH agreed with this finding. MSH stated that in all instances of fraud detected and investigated in MSH Malawi, MSH paid the losses back to the USAID ONSE project and also took employment actions. Accordingly, all corrective actions had been completed. For the current engagement, Conrad inquired about any potential fraud that related to AFIAT and our audit period. Based on our inquiries, we concluded that there was no known or reported instances of potential fraud during our audit period.

(Continued)

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

MSH's Responses to Audit Findings

Included on the following page are MSH's responses received to the findings identified in this report.



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January 17, 2023

To: Conrad, LLP
23161 Lake Center Drive, Suite 200
Lake Forest, CA 92630

RE: MSH Management Response to Audit Findings Reported in Conjunction with the Financial Audit of Costs Incurred Under Cooperative Agreement No. 720306620CA00006 – Assistance for Families and Indigent Afghans to Thrive (“AFIAT”)

Finding No. 2022-01: Personnel positions charged to the Award are not listed in the approved budget

MSH Management Response

MSH disagrees with this finding and the questioned cost of \$111,621.

Under our Cooperative Agreement, staffing is at the discretion of the Implementing Partner. The Cooperative Agreement terms and conditions do not prohibit the addition of backup/cover staff positions (if necessary and reasonable) nor does this prohibit MSH from replacing staff on a permanent or temporary basis.

*Your referenced regulation at 2 CFR 200.308 as supported by 2 CFR 200.430 **does not require prior approval** for personnel-related expenses for addition of positions or change of staff, or compensation level thereof, in order to be considered allowable. Furthermore, these expenses are necessary and reasonable as defined by 2 CFR 200.403 and 2 CFR 200.404.*

Mr. Emmanuel Eghan, whose costs (\$39,567), were questioned, is the Senior Principal Technical Advisor and an employee based at MSH's US-Arlington office. Mr. Eghan provided temporary back stop to Ms. Jeanne Hamon while she was on maternity leave. Jeanne Hamon's role as Senior Manager is covered under the Home Office Support 'blended' line for "Project Management & Operations" as a cross-functional home office support unit. This cost is legitimate and allowable and ask USAID to consider this as such.

Ms. Natasha Mahoney, whose costs (\$22,731), were questioned, is a Contract Specialist and an employee based at MSH's US-Medford office. Ms. Mahoney supports the AFIAT project in administering and managing subawards and grants to our partners. Ms. Mahoney's time is allocated within the approved budget as part of the Home Office Support 'blended' line for "Contracts, Procurement, & Information Services" as a cross-functional home office support unit. This cost is legitimate and allowable and ask USAID to consider this as such.

As a Cooperative Agreement, AFIAT is subject to 2 CFR 200. More specifically, 2 CFR 200.308 "Revision of budget and program plans" subparagraph (c) does not require USAID approval for changes made to the proposed staffing structure at time of award. Per subparagraph (c), approval is only required for the following budget-related reasons:

- (1) Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval).*
- (2) Change in a key person specified in the application or the Federal award.*
- (3) The disengagement from the project for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.*
- (4) The inclusion, unless waived by the Federal awarding agency, of costs that require prior approval in accordance with subpart E of this part as applicable.*



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- (5) *The transfer of funds budgeted for participant support costs to other categories of expense.*
- (6) *Unless described in the application and funded in the approved Federal awards, the subawarding, transferring or contracting out of any work under a Federal award, including fixed amount subawards as described in §200.333. This provision does not apply to the acquisition of supplies, material, equipment or general support services.*
- (7) *Changes in the approved cost-sharing or matching provided by the non-Federal entity.*
- (8) *The need arises for additional Federal funds to complete the project.*

Furthermore, Subparagraph (d) states "No other prior approval requirements for specific items may be imposed unless an exception has been approved by OMB"

2 CFR 200.430 "Compensation - personal services" subparagraph (a) also provides affirmation that "Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees: (1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity [...]."

In summary, 2 CFR 200.308 and 2 CFR 200.430 both support the assertion that the applicable regulations for AFIAF do not require prior approval for addition of positions or change of staff, or compensation level thereof, in order to be considered allowable.

With respect to 2 CFR 200.403, subparagraphs (b), (c), and (d), MSH confirms that:

- (i) there are no limitations or exclusions set forth in the cost principles or in the Cooperative Agreement that expressly prohibits these HQ Support costs;*
- (ii) these costs are consistent with MSH policies and procedures that are applied uniformly to both federally-financed and other activities; and*
- (iii) are adequately documented.*

With respect to 2 CFR 200.404, MSH confirms that the costs associated with these salaries are reasonable and do not exceed that which would be incurred by a prudent person under the circumstances. As stated above, both individuals were providing necessary and important technical and administrative support services to the project. Per subparagraph (e), it is MSH's consistent practice and policy to list home office support costs as a 'blended' rate in all award proposals and to draw upon the necessary support services during the implementation of the award. As stated above, Mr. Eghan was providing backstopping coverage for the MSH Senior Manager, Ms. Jeanne Hamon, while on maternity leave. There was no duplication of cost for this position. With regard to Ms. Mahoney's time, her function as Subaward Administrator is separate and distinct from that of the Senior Contract Officer and is vital to the support required to onboard our partners throughout the program. In each case, MSH has NOT significantly deviated from our established practice and policies regarding the incurrence of these costs and these costs did NOT unjustifiably increase the Federal award cost.

Responsible Management Official

Gordon Kihuguru

Chief Financial Officer, Treasurer & Vice President
 Management Sciences for Health
 4301 Fairfax Dr, Arlington, VA 22203, United States
 Email: gkihuguru@msh.org
 Tel (IP): [+17036673959](tel:+17036673959)



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Finding No. 2022-02: Employees were paid in excess of the respective National Technical Assistance (NTA) salary amount

MSH Management Response

MSH agrees to the findings and questioned costs. This was a one-off omission that occurred at start-up when the number of staff in HR was limited. MSH is now in full compliance with this requirement.

A credit entry was made to the AFIAT project for \$1,115 by January 2023, during the month end financial close. This should address the corrective action.

Responsible Management Official

Gordon Kihuguru

Chief Financial Officer, Treasurer & Vice President
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Finding No. 2022-03: MSH incorrectly charged a Subaward overbilling and travel related penalty fees to the Award

MSH Management Response

MSH Agrees with the \$400 overbilled by the sub partner as per 2CFR 200.403.

A credit of \$400 was reflected in the next invoice from the sub partner, which in effect credits back the amount to the AFIAT project. This action was completed in January 2023 Month close. Evid

MSH does not agree to \$130 billed by the sub partner for travel, was illegitimate.

*The cost was incurred for air travel ticket **change fee**, which is allowable and not a 'penalty', which is unallowable as per 2CFR 200.441. This cost was to change the dates of a purchased ticket due to delays in issuance of a visa for the traveling staff. Therefore, MSH maintains the position that it is a legitimate cost charge to the AFIAT project.*

Responsible Management Official

Gordon Kihuguru

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Finding No. 2022-04: MSH was unable to provide the required purchase orders for three consultant transactions.

MSH Management Response

MSH agrees with the audit findings regarding lack of documentation of Purchase Orders for the specific instances cited in the report.

We believe that this is an isolated incident at the start-up phase of the AFIAT project.

MSH will ensure that Purchase Orders will be attached as part of the expense support documentation in all such circumstances. The revised MSH Financial Manual explicitly covers this section to ensure that future exceptions are avoided.

Responsible Management Official

Gordon Kihuguru

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Management Sciences for Health

Finding No. 2022-05: Documented evidence of employee enrollment in STEP was not maintained.

MSH Management Response

MSH agrees with the audit findings.

A system for tracking and archiving STEP verification reports is in place since November 2022.

Responsible Management Official

Gordon Kihuguru

Chief Financial Officer, Treasurer & Vice President
Management Sciences for Health
4301 Fairfax Dr, Arlington, VA 22203, United States
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Tel (IP): [+17036673959](tel:+17036673959) DocuSigned by:

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Jan 17, 2023 | 8:59 AM EST

Sincerely,

Gordon Kihuguru

Chief Financial Officer, Treasurer & Vice President
Management Sciences for Health

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

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

Auditor's rebuttals to MSH's responses received related to the audit findings identified in this report are presented below:

- (1) **Finding 2022-01:** MSH disagreed with the finding and indicated that under the Cooperative Agreement, staffing is at the discretion of the Implementing Partner. MSH maintained that per 2 CFR 200.308 and 2 CFR 200.430, personnel-related expenses for addition of positions or change of staff does not require prior approval in order to be considered allowable. Additionally, MSH maintained that the costs associated with the employees' salaries are reasonable and necessary as defined by 2 CFR 200.403, and 2 CFR 200.404.

Auditor's Rebuttal:

Section A.4 of the Cooperative Agreement states, "*the summary budget set forth in paragraph A.4(a) ...is based on the **detailed budget** that the Recipient submitted with its application for this Award. In accordance with 2 CFR 200.308, the Recipient is required to report deviations from the approved budget and request prior approvals for budget revisions.*"

2 CFR 200.308 (b) states, "*Recipients are required to report deviations from budget or project scope or objectives, and request prior approvals from Federal awarding agencies for budget and program plan revisions, in accordance with this section.*"

Furthermore, 2 CFR 200.403 (b) states, "*Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items*".

Since the Cooperative Agreement clearly stated that approved budget is based on the detailed budget and 2 CFR 200 required conformation to limitation as to the type and amount of cost items, it is clear that any deviations from the detailed budget are required to be reported and approved. MSH charged salary costs to the AFIAT program for the Principal Technical Advisor and the Contract Specialist position. The two positions were not listed on the detailed budget and MSH did not submit or receive approval for a revised budget with the two positions included. Without the positions being listed on the approved budget, we are unable to determine whether the costs associated with the positions are reasonable and necessary for the program. For example, Contract Specialist can involve duties of writing proposal for U.S. Government contracts which is an unallowable cost. Also, there is already a Senior Principal Technical Advisor proposed and charged to this project. It is unclear when adding another Technical Advisor to the program is relevant and necessary. Finally, MSH mentioned Senior Principal Technical Advisor was to back up the Senior Manager while she was on maternity leave. Given the position requirements and skills required for the two different positions, it is unclear if Senior Principal Technical Advisor can assume the Senior Manager role. As such, our finding and recommendation remain unchanged.

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
Cooperative Agreement No. 72030620CA00006

Awarded by the United States Agency for International Development's Mission in Afghanistan
Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

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

- (2) Finding 2022-02:** MSH agreed with the finding regarding employees being paid in excess of the respective National Technical Assistance (NTA) salary amount. MSH indicated that these were one-off omissions that occurred at the start of the program when the number of staff in HR was limited. A credit entry was made to the AFIAT project for the \$1,115 of questioned costs related to this finding.

Auditor's Rebuttal:

No rebuttal to the finding in question is deemed necessary as MSH concurred with the finding. Our recommendation is to develop and implement additional policies and procedures to ensure that the salaries for all in-county employees working on the AFIAT project are in compliance with the NTA salary scale.

(3) Finding 2022-03:

- MSH agreed with the \$400 questioned cost related to the overbilling by a subcontractor. A credit of \$400 was issued in the subsequent invoice from the subcontractor.
- MSH disagreed with the \$130 questioned cost related to the billing of travel costs from a subcontractor. MSH stated the cost was incurred for an air travel ticket change fee and not a penalty fee. The cost was to change the date of a purchased air travel ticket due to delays in issuance of a visa. Since the cost was for a change fee rather than a penalty fee, MSH maintains the position that the cost was a legitimate charge to the AFIAT project.

Auditor's Rebuttal:

- No rebuttal to the \$400 questioned cost related to the overbilling by a subcontractor is deemed necessary as MSH concurred with the finding. Our recommendation is to develop and implement additional policies and procedures to ensure that costs billed by subcontractors are complete and accurate.
- The invoice we received as support for the cost clearly states that \$130 was charged for a penalty fee. Whether MSH views the fee as a change fee, or a penalty fee is not relevant as the invoice clearly states that the fee is related to a penalty. Costs for penalties are not allowable per 2 CFR 200.441. As such, our finding and recommendation remains unchanged.

- (4) Finding 2022-04:** MSH agreed with the finding regarding lack of documentation of Purchase Orders. MSH indicated that these were isolated incidents at the start-up phase of the AFIAT project. MSH will ensure that Purchase Orders will be attached as part of the expense support in

Management Sciences for Health, Inc.

Financial Audit of the Special Purpose Financial Statement for
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Assistance for Families and Indigent Afghans to Thrive (AFIAT)

For the period July 10, 2020 through July 31, 2021

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

all such circumstances. MSH revised their Financial Manual to explicitly cover this issue to ensure that future exceptions are avoided.

Auditor Rebuttal:

No rebuttal to the finding in question is deemed necessary as MSH concurred with the finding. Our recommendation is to develop and implement additional policies and procedures to improve management oversight of record retention.

- (5) Finding 2022-05:** MSH agreed that sufficient documented evidence of employee enrollment in STEP was not maintained. MSH indicated that a system for tracking and archiving STEP verification reports was implemented since November 2022.

Auditor Rebuttal:

No rebuttal to the finding in question is deemed necessary as MSH concurred with the finding. Our recommendation is to develop and implement additional policies and procedures to improve management oversight of record retention.

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