

SIGAR

Special Inspector General for
Afghanistan Reconstruction

SIGAR 24-06 Financial Audit

USAID's Afghanistan Monitoring, Evaluation, and Learning Activity: Audit of Costs Incurred by Management Systems International Inc.

In accordance with legal requirements, SIGAR has redacted from this report certain information because it is proprietary, could impact public safety, privacy, or security, or is otherwise sensitive.



DECEMBER
2023

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 13, 2019, the U.S. Agency for International Development (USAID) awarded a 5-year \$39,848,003 cost-plus-fixed-fee completion contract to Management Systems International Inc. (MSI) to support the Afghanistan Monitoring, Evaluation, and Learning Activity (AMELA) project. The program's objectives include evaluation technical support, monitoring technical support, learning and adaptive management support, and program support services to help ensure that USAID's development programs in Afghanistan achieve their intended results. USAID modified the contract 27 times. The modifications did not change the total award amount or the period of performance. The period of performance for this contract is ongoing and extends from March 13, 2019, to March 12, 2024.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$[REDACTED] in costs charged to the contract from March 12, 2021, through April 1, 2022. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in MSI's internal controls related to the contract, (2) identify and report on instances of material noncompliance with the contract's terms and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether MSI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of MSI's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

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

December 2023

USAID's Afghanistan Monitoring, Evaluation, and Learning Activity:
Audit of Costs Incurred by Management Systems International Inc.

SIGAR 24-06-FA

WHAT SIGAR FOUND

Conrad identified one significant deficiency in MSI's internal controls and one instance of noncompliance with the terms of the contract and the U.S. Code of Federal Regulations. Specifically, Conrad found that MSI submitted and approved 76 timesheets before the pay period ended. SIGAR notified MSI of the deficiency and compliance issue prior to publication of this report.

Because of the deficiency in internal controls and the instance of noncompliance, Conrad identified \$65,117 in total questioned costs consisting entirely of unsupported costs—costs that were not supported with adequate documentation or did not have required prior approvals or authorizations. Conrad did not identify any ineligible costs—costs prohibited by the contract and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$0	\$34,474	\$34,474
Indirect Costs	\$0	\$30,643	\$30,643
Total Costs	\$0	\$65,117	\$65,117

Conrad identified six prior audit reports, which contained 15 findings, that were relevant to MSI's contract. Conrad determined MSI had taken adequate corrective action on 14 of the 15 prior findings. Concerning the prior finding related to MSI's timekeeping practice, Conrad determined MSI had not taken adequate corrective action.

Conrad issued an unmodified opinion on MSI's SPFS. The SPFS presents fairly, in all material respects, the revenue received, costs incurred and balances for the audit period.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability of and recover, as appropriate, \$65,117 in questioned costs identified in the report.
2. Advise MSI to address the report's internal control finding.
3. Advise MSI to address the report's noncompliance finding.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

December 20, 2023

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

Mr. Joel Sandefur
Mission Director Afghanistan, USAID

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Management Systems International Inc. (MSI) under a contract from the U.S. Agency for International Development (USAID) to support the Afghanistan Monitoring, Evaluation, and Learning Activity (AMELA) project.¹ The program's objectives include evaluation technical support, monitoring technical support, learning and adaptive management support, and program support services to help ensure that USAID's development programs in Afghanistan achieve their intended results. Conrad reviewed [REDACTED] in costs charged to the contract from March 12, 2021, through April 1, 2022. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$65,117 in questioned costs identified in the report.**
- 2. Advise MSI to address the report's internal control finding.**
- 3. Advise MSI to address the report's noncompliance finding.**

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 MSI'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 November 20, 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-264)

¹ The contract number is 72030619C00004.

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development's Mission in
Afghanistan, for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

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November 20, 2023

Board of Directors
Management Systems International, Inc.
Arlington, VA

Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, VA 22202

Conrad LLP (referred to as Conrad or we) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Management Systems International, Inc.'s Special Purpose Financial Statement under Contract No. 72030619C00004 awarded by the United States Agency for International Development's Mission in Afghanistan for the period March 12, 2021 through April 1, 2022, in support of the Afghanistan Monitoring, Evaluation, and Learning Activity Program.

On September 12, 2023, we provided SIGAR with a draft report reflecting our audit procedures and results. Management Systems International, Inc. received a copy of the report on November 1, 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 Systems International, Inc. Additionally, Management Systems International, 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 Contract.

Sincerely,

A handwritten signature in blue ink that reads "S Perera". The signature is written in a cursive style with a horizontal line underneath the name.

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Background

On March 13, 2019, the United States Agency for International Development's Office of United States' (USAID) Mission to Afghanistan awarded a cost-plus-fixed-fee completion type contract No. 72030619C00004 (Contract) to Management Systems International, Inc. (MSI) in support of the Afghanistan Monitoring, Evaluation, and Learning Activity (AMELA) project.

The purpose of the Contract was to ensure that USAID's development programs in Afghanistan achieve their intended results through strong performance management service provision, in an efficient and cost-effective manner, with a focus on evaluation technical support services, monitoring technical support services, learning and adaptive management services, and program support services. The four key objectives of this contract are as follows:

- **Evaluation Technical Support Services:** Provide analytical services which include mid-term and final evaluations, performance and impact evaluations, geographic and sectoral assessments, activity-specific assessments and verifications, sectoral surveys, and baseline analyses.
- **Monitoring Technical Support Services:** Provide monitoring and verification technical support services to strengthen decision-making for design and implementation of development programming through third-party monitoring (TPM), a component of the Mission's Multi-Tiered Monitoring approach, including, but not limited to, design and implementation of TPM tools and approaches, field-based data collection and verification, and data quality assessments.
- **Learning and Adaptive Management Support Services:** Support operationalization of collaboration, learning, adaption (CLA) and knowledge management within USAID/Afghanistan throughout the Program Cycle. This component will additionally focus on capacity building activities that bolster USAID staff and stakeholders' M&E, learning, overall management capabilities, and skills.
- **Program Support Services:** Provide USAID/Afghanistan with performance-related, short-term advisory assistance to support mission-wide strategic and performance planning, including analytical work to support mission Program Cycle processes, development and implementation of a mission-wide Performance Management Plan, and assistance with project- and activity-level M&E and learning-related tasks, such as DQAs, indicator development, and the organization of partner and stakeholder meetings to discuss progress and results.

The initial award amount was \$39,848,003, of which all was funded by the USAID Mission to Afghanistan. AMELA is a five-year contract, with a two-year base period budget of \$ [REDACTED] and a period of performance from March 13, 2019, to March 12, 2021, and three one-year option periods. There have been twenty-seven modifications to the Contract to incrementally add, transfer, obligate and de-obligate funds, as well as transfer Bureau of Humanitarian Assistance (BHA) funds to the AMELA contract. The modifications also exercised option period 1 with a budget of \$ [REDACTED], and a period of performance from March 13, 2021, to March 12, 2022; option period 2 with a budget of \$ [REDACTED], and a period of

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Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

performance to March 13, 2022 to March 12, 2023; and option period 3 with a budget of \$ [REDACTED], and a period of performance from March 13, 2023 to March 12, 2024. See the *Summary of Contract* below.

Summary of Contract

Contract Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
72030619C00004	\$39,848,003	03/13/19	03/12/24	27	No change	No change

MSI is a for-profit international development consulting firm founded in 1981. MSI provides services such as strategy, evaluation, analysis, and support for democracy and governance programs. Tetra Tech acquired MSI on March 25, 2016, but the firm still does business as MSI.

Work Performed

Conrad LLP (Conrad) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the Contract, as mentioned above, of MSI's Special Purpose Financial Statement (SPFS) for revenue received, costs incurred, and fixed fee under the Program totaling \$ [REDACTED] for the period March 12, 2021 through April 1, 2022.

Objectives, Scope, and Methodology

Audit Objectives

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

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether MSI's SPFS for the Contract presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the Contract and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain sufficient understanding of MSI's internal controls related to the Contract, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

- *Compliance* – Perform tests to determine whether MSI complied, in all material respects, with the Contract requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether MSI has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of audit included all revenue received, costs incurred plus fixed fee totaling \$ [REDACTED] during the period of March 12, 2021 through April 1, 2022. Our testing of the indirect cost charged to the Contract was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved in the Negotiated Indirect Cost Rate Agreement (NICRA) and subsequent applicable amendments.

Audit Methodology

To accomplish the audit objectives, we designed our audit procedures to include the following:

Entrance Conference

An entrance conference was held on March 29, 2023, with representatives of MSI, Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of the 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 MSI. The scope of our audit includes MSI's management and employees, internal and external factors that affect operations, and accounting policies and procedures. We gained an understanding of MSI through interviews, observations, and reading policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
 - Contract and modifications;

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Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

- Any regulations that are specific to the Contract's requirements, such as USAID Acquisition Regulation ("AIDAR"), Federal Acquisition Regulation, Part 31 ("FAR 31"), Federal Acquisition Regulation, Part 52 ("FAR 52");
 - Audited financial statements; and
 - Previous SIGAR and USAID financial audit reports.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs are properly recorded.

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Contract, and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, reasonable, and allocable to the Contract;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional and final negotiated indirect cost rates to ensure that they were accurately applied.

Internal Controls Related to the Contract

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

Compliance with the Contract Requirements and Applicable Laws and Regulations

We performed tests to determine whether MSI complied, in all material respects, with the Contract requirements, AIDAR, FAR 52, and FAR 31 and any other applicable laws and regulations. We also

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Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
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For the Period of March 12, 2021 through April 1, 2022

identified and reported on instances of material noncompliance with terms of the Contract and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

We requested prior audit reports from MSI 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 (www.sigar.mil), USAID (www.usaid.gov), and other Federal agencies, to identify previous engagements that could have a material effect on MSI'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 21.

Exit Conference

An exit conference was held on August 28, 2023 via conference call. Participants included representatives from Conrad, MSI, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS.

We identified \$65,117 in total unsupported questioned costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Contract's provisions or applicable laws and regulations, or not related to the Contract. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on MSI's SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Internal Controls

Our audit identified one internal control finding. The internal control finding is considered to be a significant deficiency. See *Independent Auditor’s Report on Internal Control* on page 15.

Compliance

The results of our testing identified one instance of noncompliance. See the *Independent Auditor’s Report on Compliance* on page 17.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. MSI self-disclosed one instance of alleged fraud that could have a potential impact on the Program and the SPFS. Based on further discussions with MSI and review of the alleged incident of fraud, an internal investigation into these allegations was conducted and the results found that there was no monetary or material effect to the Program or the SPFS during the period under review. As such, there are no further communications warranting additional consideration.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2023-01	Non-compliance and Internal Control – Significant Deficiency	Inadequate Timekeeping Practice for MSI Employees	\$ -	\$ 65,117	\$ 65,117
Total Questioned Costs			\$ -	\$ 65,117	\$ 65,117

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to MSI's activities under the Contract, we identified six (6) prior engagements with 15 findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with the management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our audit. Based on our review, MSI had taken adequate corrective actions on 14 out of the 15 findings and recommendations and did not take adequate corrective action on one finding and recommendation. See *Status of Prior Audit Findings* on page 21 for a detailed description of the prior findings and recommendations.

Summary of MSI's Responses to Findings

The following represents a summary of the responses provided by MSI to the findings identified in this report. The complete responses received can be found at *Appendix A* starting at page 27 of this report.

Finding 2023-01 - MSI disagreed with findings stating that MSI has an official timekeeping policy that is based on location and nationality of the employee. Additionally, MSI has compensating controls to ensure staff time entered is accurate and ensure MSI does not bill USAID for estimated hours or hours that have not yet been worked.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Management Systems International, Inc.
Arlington, VA

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Management Systems International, Inc. (MSI) and the related notes to the Special Purpose Financial Statement, with respect to the Contract No. 72030619C00004 (Contract) awarded by the U.S. Agency for International Development (USAID) in support of the Afghanistan Monitoring, Evaluation, and Learning Activity Program, for the period of March 12, 2021 through April 1, 2022.

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of March 12, 2021 through April 1, 2022, in accordance with the terms of the Contract and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction.

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement section of our report. We are required to be independent of MSI, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Presentation and Accounting

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

(Continued)

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Responsibilities of Management 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 Office of the Special Inspector General of Afghanistan Reconstruction. 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 it is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement

Our objectives are to obtain reasonable assurance about whether the Special Purpose Financial Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MSI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated November 15, 2023 on our consideration of MSI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Contract, and other matters. The purpose of those reports is to describe the scope of our testing of internal

control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSI's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of Management Systems International, Inc., the United States Agency for International Development 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.

Conrad LLP

Lake Forest, California
November 15, 2023

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan, Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

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:						
Award No.						
72030619C00004	\$ [REDACTED]	\$ [REDACTED]	\$ -	\$ -	\$ -	(4)
Total revenues	<u>39,848,003</u>	[REDACTED]	-	-	-	
Costs incurred and Fixed Fee:						
CLIN 1 – Direct Costs	[REDACTED]	[REDACTED]	-	34,474	34,474	(A)
CLIN 2 – BHA Costs	[REDACTED]	[REDACTED]	-	-	-	
CLIN 3 – Indirect Costs	[REDACTED]	[REDACTED]	-	30,643	30,643	(B)
CLIN 4 – BHA Indirect Costs	[REDACTED]	[REDACTED]	-	-	-	
Fixed Fee	[REDACTED]	[REDACTED]	-	-	-	
Total costs incurred and fixed fee	<u>\$ 39,848,003</u>	<u>\$ [REDACTED]</u>	<u>\$ -</u>	<u>\$ 65,117</u>	<u>\$ 65,117</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

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Notes to Special Purpose Financial Statement¹

(1) **Status and Operation**

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

(2) **Program Purpose**

The purpose of this contract is to procure the service of a Contractor for the implementation of the Afghanistan Monitoring, Evaluation, and Learning Activity (AMELA).

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

a. **Basis of Accounting**

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

b. **Basis of Presentation**

The accompanying Special Purpose Financial Statement (Statement) includes costs incurred under the United States Agency for International Development/Afghanistan Contract Number 72030619C00004 – Afghanistan Monitoring, Evaluation, and Learning Activity (AMELA) project during the period March 12, 2021 – April 1, 2022. Because the Statement presents only a selected portion of the operations of Management Systems International, Inc. (MSI) it is not intended to and does not present the financial position, changes in net assets, or cash flows of MSI. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned Federal Contract.

c. **Foreign Currency Conversion Method**

The SPFS is presented in U.S. dollars. MSI's practice with regards to show it determines the exchange rate used in recording and billing expenses paid abroad in foreign currencies is as follows: The exchange rate used in a given month for recording and billing expenses incurred

¹ The Notes to the Special Purpose Financial Statement are the responsibility of MSI.

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004
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for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Notes to Special Purpose Financial Statement¹

in a foreign currency in the field is equal to the weighted average exchange rate of the funds converted from U.S. dollars to local currency for the project in the prior month. For payments made from U.S. in a foreign currency, MSI converts any expenses that were paid in Afghanistan into U.S. dollars by using the current exchange rate in effect on the transaction date.

(4) Revenues

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

(5) Cost Categories

The budget categories presented, and associated amounts reflect the budget line items presented within the approved Contract budget. The total budget for the Program is \$39,848,003 for the performance of 5 years.

(6) Reconciliations

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

(7) Program Status

The Afghanistan Monitoring, Evaluation, and Learning Activity (AMELA) project remains active. The period of performance for the Contract is scheduled to conclude on March 12, 2024.

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Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) CLIN 1 – Direct Costs

MSI reported a total of \$ [REDACTED] for CLIN 1 - Direct Costs for the period of March 12, 2021 through April 1, 2022.

During our audit of these costs, we noted 76 instances where MSI employee's timesheets were submitted and approved prior to the end of the pay period, resulting in unsupported costs of \$34,474. See **Finding No. 2023-01** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total questioned CLIN 1 – Direct Costs of \$34,474, consisting of \$34,474 in unsupported costs and no ineligible costs.

(B) CLIN 3 – Indirect Costs

MSI reported a total of \$ [REDACTED] for CLIN 3 – Indirect Costs for the period of March 12, 2021 through April 1, 2022.

The indirect costs associated with questioned costs identified in **Note A** above resulted in total unsupported CLIN 3 - indirect costs of \$30,643 and no ineligible CLIN 3 - indirect costs. This resulted in total questioned indirect costs of \$30,643.

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.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Management Systems International, Inc.
Arlington, VA

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

We have audited, the Special Purpose Financial Statement ("Statement") and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Management Systems International, Inc. (MSI) under Contract No. 72030619C00004 (Contract) in support of the Afghanistan Monitoring, Evaluation, and Learning Activity Program for the period of March 12, 2021 through April 1, 2022. We have issued our report thereon dated November 15, 2023 with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement for the period of March 12, 2021 through April 1, 2022, we considered MSI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of MSI's internal control. Accordingly, we do not express an opinion on the effectiveness of MSI'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.

(Continued)

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Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. Finding 2023-01 is considered to be a significant deficiency.

MSI's Response to Findings

MSI's response to the findings identified in our audit is included verbatim at the *Appendix A*. MSI's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of MSI, the United States Agency for International Development 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
November 15, 2023

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Management Systems International, Inc.
Arlington, VA

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Management Systems International, Inc. (MSI) under Contract No. 72030619C00004 (Contract) in support of the Afghanistan Monitoring, Evaluation, and Learning Activity Program, for the period of March 12, 2021 through April 1, 2022. We have issued our report thereon dated November 15, 2023 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSI's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Contract, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Finding 2023-01.

MSI's Response to Findings

MSI's response to the findings identified in our audit is included verbatim at the *Appendix A*. MSI's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

(Continued)

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Restriction on Use

This report is intended for the information of MSI, the United States Agency for International Development 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.

Conrad LLP

Lake Forest, California
November 15, 2023

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004
Awarded by the United States Agency for International Development
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Schedule of Findings and Questioned Costs

Finding 2023-01: Inadequate Timekeeping Practice for MSI Employees

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

Condition: Conrad tested 16 out of 53 employee payroll records for 68 pay periods totaling 112 timesheets to determine if the costs incurred under the Program were adequately supported, accurate, and properly approved. During our testing of payroll, we noted 76 instances where employee's timesheets were prepared, submitted, and approved prior to the pay period end.

For each of the instances of early timesheet submissions listed above, there is a lack of control and evidence to demonstrate that the estimated hours submitted prior to the period end were hours actually worked. Conrad also found no timely evidence of subsequent reviews of the timesheets indicating the estimated hours were recorded correctly to reflect the actual work performed for the day(s) in question that were approved prior to the end of the pay period. These forecasted hours resulted in forecasted labor costs and does not reflect actual cost incurred. The inadequate control and evidence demonstrating the hours were actually worked resulted in total unsupported questioned costs of \$34,474.

Criteria:

MSI's Field Expense Categories Policy, states in part:

"Please note that it is MSI policy that timesheets are filled out on a daily basis. Individuals may not project time forward if it has not yet been worked. The only exception to this policy is if the employee will be on approved leave for the remainder of the pay period."

MSI's Timekeeping Process Guidance, states in part:

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

FAR 31.001, Definitions, states in part:

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

FAR 31.201-2 Determining allowability, states in part:

"...(c) When contractor accounting practices are inconsistent with this subpart 31.2, costs resulting

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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Schedule of Findings and Questioned Costs (Continued)

from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.

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

FAR 52.203-13(c)(2), Contractor Code of Business Ethics and Conduct, states in part:

"An internal control system.

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

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

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

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

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

Cause: MSI does not have an official timekeeping policy for verifying accuracy of forecasted hours for national and headquarters employees. MSI does not perform, nor does it have formal procedures to review the accuracy of timesheets that were submitted and approved early.

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

Questioned Costs: We identified \$34,474 in unsupported costs and \$30,643 in associated indirect costs, which resulted in \$65,117 in total questioned costs.

Recommendation:

(1) We recommend that MSI either provide additional support evidencing the subsequent verification of early timesheet submissions and approvals to determine the validity of the estimated time entered, or return \$65,117 of unsupported costs.

(2) We recommend that MSI revise its current policies and procedures to cover early submission and approval of timesheets for headquarters and national employees to ensure staff time entered is accurate when the employee submits time, and that the supervisor approves time prior to the pay period end.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from MSI, SIGAR, and USAID pertaining to Contract activities under this audit. We identified six prior audit reports which contained 15 findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures, including discussion with MSI's management, and performed testing of similar activities during our audit. We have summarized the results of our procedures below:

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

Finding 2013-01: Cash Management Procedures

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

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

Finding 2013-02: Cash Management Procedures

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

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

2. Closeout Audit of Costs Incurred for Afghanistan by Management Systems International, Inc. Under a) Monitoring Support Project – Northern Provinces TO 1 (MSP) No. AID-306-TO-15-00072

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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For the Period of March 12, 2021 through April 1, 2022

Status of Prior Audit Findings (Continued)

for the period from August 9, 2015 to August 10, 2017 And b) Measuring Impact of Stabilization Initiative (MISTI) No. AID-306-TO-12-00004 for the period from July 1, 2014 to October 7, 2015 conducted in 2018 by an external accounting firm on behalf of USAID.

Finding 2018-01: Missing Documentation

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

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

3. USAID Assessment Review Report on the Afghanistan's Measure for Accountability and Transparency (AMANAT) Program in 2018. On the Contractor Performance Assessment Report System (CPARS) report.

Finding 2018-01: MSI Overcharged \$39,000 in Monthly Vouchers

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

Status: For the current engagement, there were no instances where MSI overcharged USAID. As such, we concluded that MSI has taken adequate corrective action on this finding.

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

Finding 2019-01: Sub-Contractor's Compliance with the National Technical Assistance (NTA) Hiring Requirements & Salary and Implementation Guidelines of Afghanistan Government

Issue: MSI did not provide documentation for subcontractors' compliance with NTA hiring requirements, salary scale, and implantation guidelines of the Afghanistan Government. It is the responsibility of the prime contractor to ensure a flow-down of the agreement to the sub-contractors.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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For the Period of March 12, 2021 through April 1, 2022

Status of Prior Audit Findings (Continued)

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

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

Finding No. 3.1.1: Refundable Security Deposit Incorrectly Charged to USAID

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

Status: For the current engagement, there were no instances where MSI overcharged USAID. As such, we concluded that MSI has taken adequate corrective action on this finding.

Finding No. 3.1.2: Utility Bills Charged Twice to USAID - Pakistan

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

Status: For the current engagement, there were no instances noted where MSI double charged USAID. As such, we concluded that MSI has taken adequate corrective action on this finding.

Finding 3.1.3: Inadequate Supporting Documentation for Procurement

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

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

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Status of Prior Audit Findings (Continued)

Finding No. 3.1.4: Salary Rates Allowed by More Than 100% Raise as Compared to Previous Rates

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

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

Finding No. 3.1.5: Transparency of Competitive Recruitment Process cannot be Ascertained

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

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

Finding No. 3.1.6: Weakness in the Monitoring of Controls Over Subcontractors

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

Status: For the current engagement, there were no instances noted where MSI did not properly review and monitoring the compliance of subcontractors with the terms of the Contract. It appears that adequate controls have been put into place. As such, we concluded that MSI has taken adequate corrective action on this finding.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Status of Prior Audit Findings (Continued)

6. Financial Audit of Costs Incurred Under Contract No. AID-306-H-17-00003 Awarded by the United States Agency for International Development/Afghanistan (“USAID”) for the Afghanistan’s Measure for Accountability and Transparency (AMANAT) Project for the period from October 1, 2018 through August 22, 2020.

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

Issue: Auditor’s noted 59 instances where employees prepared and submitted timesheets prior to the pay period end. Of those 59 instances, 12 were approved by a supervisor after the pay period end. In addition, there were 47 instances where timesheets were submitted by the employee and supervisors approved the timesheets one day prior to the pay period end.

Status: For the current engagement, we noted 71 instances where employees prepared and submitted timesheets prior to the pay period end. This issue is described in Finding 2023-01. Conrad concluded that adequate corrective action was not taken with respect to this matter.

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

Issue: Auditor’s noted five (5) transactions for one employee who received an Involuntary Separate Maintenance Allowance (SMA), but the auditors could not determine if the employee met the qualifications for SMA over the course of his employment. The employee originally signed in his renewal employment agreement, that he will need an SMA for his spouse and four or more children. However, auditors found no further evidence to determine if the employee continued to qualify for Involuntary SMA in support of the five (5) SMA payments made.

Status: For the current engagement, there were no instances noted where MSI did not have sufficient evidence for Separate Maintenance Allowances. As such, we concluded that MSI has taken adequate corrective action on this finding.

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

Issue: Auditor’s noted that MSI was unable to provide an invoice prepared by a subcontractor’s consultant as required by the consultant agreement. The subcontractor provided an internally prepared observation form of the work performed by the consultant in lieu of the required invoice as alternate support to demonstrate the work had been performed by the consultant.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

Status of Prior Audit Findings (Continued)

Status: For the current engagement, there were no instances noted where MSI lacked sufficient evidence to support subcontractor costs. As such, we concluded that MSI has taken adequate corrective action on this finding.

Finding 2021-04: Overcharge to USAID Identified

Issue: Auditor's noted that MSI paid stipends to participants based on the number of participants signed up for the training but did not have additional controls to ensure the participants did actually attend the training. There were five instances where stipends were paid to participants who did not attend the training.

Status: For the current engagement, there were no instances noted where MSI paid stipends for training without proof of participant attendance. As such, we concluded that MSI has taken adequate corrective action on this finding.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

MSI's Responses to Audit Findings



Finding 2023-01: Inadequate Timekeeping Practice for MSI Employees

MSI Response: MSI disagrees with this finding.

MSI Employee Types:

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

Nationality:

[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

Location + Length of Work:

[Redacted]	[Redacted]
[Redacted]	[Redacted]
[Redacted]	[Redacted]

How the staff submit time and are paid:

[Redacted]	[Redacted]
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Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

MSI's Responses to Audit Findings

[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

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

Due to the separate policies and procedures our response to questioned timesheets will be split to address each employee type where costs were questioned by auditors.

[REDACTED]

Auditors are questioning costs related to 23 instances where they allude that [REDACTED] timesheets were prepared, submitted, and approved prior to the pay period end.

[REDACTED]

[REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004

Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

MSI's Responses to Audit Findings



Local Labor Laws under Article 73 of Payment of Wage to Employee states, *"Payment of Wage shall be made during the same month and shall not be delayed without consent of the Employee"*. Meaning that payment should be made by the last day of the calendar month per local law.

Taking into consideration the Local Labor Law and to not add to the burden of our [REDACTED] who were entitled to pay their pay, Project Management Staff made the request for an exception to our policy. This exception was to allow [REDACTED] to submit timesheets a few days before the end of the timekeeping period for them to be processed and paid in a timely manner. The exception to policy was approved and it was communicated to all staff that any changes to timesheets were required to be reported and corrected.

The exception was approved due to the consideration of the local law and that [REDACTED] are 100% chargeable to the project. There is no risk of estimated hours as all hours, including holidays and leave types, are charged as direct project labor. [REDACTED]

[REDACTED] this would provide ample notification if an employee's status was going to change during a payroll month.

As a final step to provide assurance that hours were correct and there were not changes to hours billed that had not been processed. We provided auditors with a retro-active re-certification from the Contract's Chief of Party. This certification stated that he had reviewed all questioned timesheets and was not aware of any unprocessed changes to these timesheets which would impact the labor hours billed.



Auditors are questioning costs related to 53 instances where they allude [REDACTED] timesheets were prepared, submitted, and approved prior to the pay period end.

MSI's timekeeping policies and procedures pertinent to employees paid through [REDACTED] from our Timecards User Guide.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
Contract No. 72030619C00004
Awarded by the United States Agency for International Development/Afghanistan
for the Afghanistan Monitoring, Evaluation, and Learning Activity Program

For the Period of March 12, 2021 through April 1, 2022

MSI's Responses to Audit Findings

[REDACTED]

[REDACTED]

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

MSI is a wholly owned subsidiary of Tetra Tech, Inc (Tetra Tech). Tetra Tech has 43+ units operating under their corporate structure and over 20,000 associates worldwide. The timekeeping policy for [REDACTED]

[REDACTED] Corporate level, as accounting system processing and payroll are corporate level functions. Tetra Tech's established process takes into consideration the need to coordinate a weekly timesheet submission and review process across the globe. As part of the Tetra Tech's week-end processing all timecards are imported into the accounting system.

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

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

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

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

As a final step to provide assurance that hours were correct and there were not changes to hours billed that had not been processed. We provided auditors with a retro-active re-certification from the Contract's Senior Project Manager and Direct of Operations. This certification stated that they had reviewed all questioned timesheets and was not aware of any unprocessed changes to these timesheets which would impact the labor hours billed.

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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MSI's Responses to Audit Findings

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

(Continued)

Management Systems International, Inc.

Financial Audit of the Special Purpose Financial Statement for
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Auditor's Rebuttal to MSI's Responses to Audit Findings

MSI disagreed with finding **2023-01** stating that MSI has an official timekeeping policy that is based on location and nationality of the employee. Additionally, MSI has compensating controls to ensure staff time entered is accurate and ensure MSI does not bill USAID for estimated hours or hours that have not yet been worked.

Auditor's Rebuttal

MSI did not have actual evidence to demonstrate the projected hours were reviewed after the fact. The retro-recertifications signed by the Chief of Party or supervisor were dated at the end of our audit fieldwork rather than within a reasonable timeframe after each pay period. As such, our findings and recommendations remain unchanged.

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SIGAR's Mission

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202