

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 25-09 Financial Audit

USAID's Assistance for Families and Indigent Afghans to Thrive: Audit of Costs Incurred by Management Sciences for Health Inc.

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



DECEMBER
2024

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 cooperative agreement to Management Sciences for Health Inc. (MSH) to implement the Assistance for Families and Indigent Afghans to Thrive (AFIAT) program. The purpose of AFIAT is to improve health outcomes for women of childbearing age and preschool-aged children in the rural and peri-urban regions of Afghanistan's 34 provinces. The cooperative agreement was for \$117,000,000 with a performance period of July 10, 2020, to July 9, 2025. USAID modified the cooperative agreement eight times. The modifications did not change the agreement amount or end date.

SIGAR's financial audit, performed by Conrad LLP (Conrad) reviewed \$31,582,464 in costs charged to the cooperative agreement including \$23,173 in cost share from August 1, 2021, through July 31, 2023. 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 cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative 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. 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 2024

USAID's Assistance for Families and Indigent Afghans to Thrive: Audit of Costs Incurred by Management Sciences for Health Inc.

SIGAR 25-09-FA

WHAT SIGAR FOUND

Conrad identified three significant deficiencies in MSH's internal controls and three occurrences of noncompliance with the terms of the cooperative agreement or applicable regulations. For example, Conrad noted one instance when an undetected clerical error resulted in \$11,751 of ineligible costs charged to the AFIAT program. MSH concurs with Conrad's finding and has agreed to credit the AFIAT program this amount. The audit also showed that MSH overpaid a vendor supplying vehicle rental services.

Because of the deficiencies in internal controls and instances of noncompliance noted above, Conrad identified a total of \$44,280 in questioned costs, consisting of \$15,241 in ineligible costs—costs prohibited by the agreement or applicable laws and regulations, and \$29,039 in unsupported costs—costs not supported with adequate documentation or did not have the required prior approvals.

Cost Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$12,288	\$24,001	\$36,289
Indirect Costs	\$ 2,953	\$ 5,038	\$7,991
Total Costs	\$15,241	\$29,039	\$44,280

Conrad identified two prior audit reports relevant to its audit of the AFIAT cooperative agreement. The two reports had four findings and accompanying recommendations. Conrad conducted follow-up procedures and concluded MSH has not taken adequate corrective action on one of the four findings as it was a repeat finding under this audit.

Conrad issued an unmodified opinion on MSH's SPFS. Conrad noted it presented fairly, in all material respects, revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

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

1. Determine the allowability and recovery of, as appropriate, the \$44,280 in questioned costs identified in this report.
2. Advise MSH to address the report's three internal control findings.
3. Advise MSH to address the report's three noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

December 18, 2024

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

Mr. Joel Sandefur
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 cooperative agreement issued by the U.S. Agency for International Development (USAID) in support of its Assistance for Families and Indigent Afghans to Thrive (AFIAT) program.¹ The purpose of the AFIAT program is to improve health outcomes of women of childbearing age and pre-school-aged children in rural and peri-urban regions of Afghanistan's 34 provinces. Conrad reviewed \$31,582,464 in costs charged to the cooperative agreement including \$23,173 in cost share from August 1, 2021, through July 31, 2023. 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 the responsible agreement officer at USAID:

- 1. Determine the allowability and recovery of, as appropriate, the \$44,280 in questioned costs identified in this report.**
- 2. Advise MSH to address the report's three internal control findings.**
- 3. Advise MSH to address the report's three 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 November 21, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which 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-291)

¹ The cooperative agreement No.72030620CA00006.

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

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November 21, 2024

Board of Directors
Management Sciences for Health
Arlington, Virginia

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

Conrad LLP (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's Special Purpose Financial Statement under Cooperative Agreement No. 72030620CA00006 awarded by the United States Agency for International Development for the period of August 1, 2021 through July 31, 2023, supporting the Assistance for Families and Indigent Afghans to Thrive.

On October 8, 2024, we provided SIGAR with a draft report reflecting our audit procedures and results. Management Sciences for Health (MSH) received a copy of the report on October 28, 2024 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's responses and our corresponding auditor analysis are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you, and to conduct the audit of this Cooperative Agreement.

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 Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

Background

On July 9, 2020, the United States Agency for International Development (USAID) awarded Cooperative Agreement No. 72030620CA00006 (Cooperative Agreement) to Management Sciences for Health, Inc. (MSH), in support of the activity entitled “Assistance for Families and Indigent Afghans to Thrive” (AFIAT) formerly named as “National Health Technical Assistance Program” (NHTAP).

The purpose of the Cooperative Agreement was to improve health outcomes among the Afghan people, particularly women of childbearing age and pre-school children in rural and peri-urban parts of the 34 Sehatmandi supported provinces. MSH was to offer an evidence-based, people-focused, systems thinking approach to achieve the following objectives:

- Improving the quality of primary and secondary health and nutrition services in targeted rural areas.
- Increasing access to high-impact and evidence-based health and nutrition services.
- Enhancing adoption of optimal health and nutrition behaviors by communities and households.
- Strengthening GOA commitment and capacity to plan, finance and manage the health system in both the public and private sectors.

As detailed in the Summary of Cooperative Agreement below, the period of performance was July 10, 2020 through July 9, 2025, with a total estimated USAID award amount of \$117,000,000. The agreement has been modified eight times, and the total award amount and period of performance remain unchanged.

Summary of Award

Cooperative Agreement 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
72030620CA00006	\$117,000,000	07/10/20	07/09/25	8	No change	No change

MSH is a global health nonprofit organization based in Arlington, Virginia. It was founded in 1971, and has expertise in strengthening health systems, COVID-19 prevention and control, and other health related programs. Currently, MSH has offices in over 50 countries, and experience working at the community, district, regional and federal levels, in over 150 countries.

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

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 Cooperative Agreement, as mentioned above, of MSH's Special Purpose Financial Statement (SPFS) for revenue received and costs incurred under the Cooperative Agreement totaling \$31,582,464 including \$23,173 cost share for the period August 1, 2021 through July 31, 2023.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit of the aforementioned Cooperative Agreement include the following:

- *Special Purpose Financial Statement* – Express an opinion on whether MSH's SPFS for the Cooperative Agreement 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 Cooperative Agreement 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 Cooperative Agreement, 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 Cooperative Agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the Cooperative Agreement 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 costs incurred during the period of August 1, 2021 through July 31, 2023, totaling \$31,582,464 including \$23,173 cost share, under the Cooperative Agreement. Our testing of the indirect cost charged to the Cooperative Agreement 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.

(Continued)

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

Audit Methodology

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

Entrance Conference

An entrance conference was held on March 5, 2024, with representatives of MSH, Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of MSH. The scope of our audit includes MSH's management and employees, internal and external factors that affected operations, accounting policies and procedures. We gained an understanding of MSH 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:
 - Cooperative Agreement and modifications;
 - Any regulations that were specific to the agreement's requirements, such as 2 CFR 200 Subpart E Cost Principles, 2 CFR 700 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, USAID Automated Directives System (ADS) Chapter 303, Grants and Cooperative Agreements to Non-Government Organizations;
 - 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 were properly recorded.

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Cooperative Agreement, and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;

(Continued)

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

- 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 Cooperative Agreement;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated the indirect cost using the approved provisional negotiated indirect cost rates to ensure that the rate was accurately applied.

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, ADS 303, and any other applicable laws and regulations. We also identified and reported on instances of material noncompliance with terms of the Cooperative Agreement 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 material effect on MSH's SPFS. In addition, we also conducted a search online of various governmental websites including SIGAR (www.sigar.mil), USAID (www.usaid.gov), and other applicable Federal agencies, to identify previous engagements that could have a material effect on 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. See the *Status of Prior Audit Findings* section on page 29.

Exit Conference

An exit conference was held on September 25, 2024, via conference call. Participants included representatives from Conrad, MSH, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

(Continued)

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

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 \$44,280 in total questioned costs, which comprised \$15,241 in ineligible costs and \$29,039 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the Cooperative Agreement's provisions or applicable laws and regulations, or not related to the Cooperative Agreement. 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 MSH's SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Internal Controls

Our audit identified three (3) internal control findings. All three (3) internal control findings are considered to be significant deficiencies. See *Independent Auditor's Report on Internal Control* on page 16.

Compliance

The results of our testing identified three (3) instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 18.

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*. MSH self-disclosed five (5) instances of alleged fraud that could have a potential impact on the Program and the SPFS. Based on further discussions with MSH and review of the alleged incidences of fraud, an internal investigation into these allegations was conducted by MSH and the results found that there was no monetary or material effect to the Cooperative Agreement or the SPFS during the period under review. As such, there are no further communications warranting additional consideration.

(Continued)

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
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 in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2024-01	Non-compliance and Internal Control – Significant Deficiency	Missing Procurement Documentation	\$ -	\$ 29,039	\$ 29,039
2024-02	Non-compliance and Internal Control – Significant Deficiency	Unallowable costs were charged to the Program.	\$ 15,241	\$ -	\$ 15,241
2024-03	Non-compliance and Internal Control – Significant Deficiency	MSH overpaid a vendor supplying vehicle rental services by \$5,521.	\$ -	\$ -	\$ -
Total Questioned Costs			\$ 15,241	\$ 29,039	\$ 44,280

Review of Prior Findings and Recommendations

We requested copies of prior audit reports and engagements from MSH, SIGAR, and USAID pertinent to MSH’s activities under the Cooperative Agreement. We identified two (2) prior audit reports that contained four (4) findings and associated 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 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. We concluded that MSH had taken adequate corrective action on three out of the four prior audit findings and associated recommendations. Accordingly, MSH has not 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. See *Status of Prior Audit Findings* on page 29 for a detailed description of the prior findings and recommendations.

(Continued)

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

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 in *Appendix A* to this report):

2024-01: MSH disagreed with the finding stating that 1) the Taliban's uncoordinated takeover of the government led to the collapse of the banking system in Afghanistan, forcing MSH to switch to new money transfer agents; 2) their procurement team did perform and document their due diligence around collecting and collating information of over ten Hawala merchants; 3) MSH participated in a joint working group of USAID Implementing Partners investigating the use of Hawalas during the time period.

2024-02: MSH agreed with the finding.

2024-03: MSH agreed with the finding.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Management Sciences for Health, Inc.
Arlington, Virginia

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement (Statement) and the related notes to the Statement, of Management Sciences for Health, Inc. (MSH) with respect to the Cooperative Agreement No. 72030620CA00006 (Cooperative Agreement) awarded by the United States Agency for International Development (USAID) to support the Assistance for Families and Indigent Afghans to Thrive (AFIAT) for the period of August 1, 2021 through July 31, 2023.

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 August 1, 2021 through July 31, 2023, in accordance with the terms of the Cooperative Agreement and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR).

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 Management Sciences for Health, Inc., 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 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 Management Sciences for Health, Inc. on the basis of the requirements provided by USAID. Our opinion is not modified with respect to this matter.

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 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 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 Management Sciences for Health, Inc.'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 21, 2024 on our consideration of Management Sciences for Health, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the Cooperative Agreement, and other matters. The purpose of these 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 Management Sciences for Health, Inc.'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, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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 the United States Congress and 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 21, 2024

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
 Awarded by the United States Agency for International Development
 in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
Cooperative Agreement No. 72030620CA00006	\$ 117,000,000	\$ 31,582,464	-	-	-	(5)
Total revenues	<u>117,000,000</u>	<u>31,582,464</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Salaries & Wages	31,222,978	12,110,650	-	-	-	
Allowances	2,644,135	448,319	-	-	-	
Fringe Benefits	2,325,789	152,190	-	-	-	
Travel & Transportation	2,102,437	1,543,911	537	-	537	(A)
Equipment & Supplies	6,400,390	168,358	-	-	-	
Subawards	29,581,537	1,818,521	-	-	-	
Consultants	947,488	551,320	-	-	-	
Other Direct Costs	13,022,070	5,011,430	11,751	24,001	35,752	(B)
Unbillable						
Security Costs	4,398,940	2,607,172	-	-	-	
Indirect Costs & G&A	<u>24,354,236</u>	<u>7,170,593</u>	<u>2,953</u>	<u>5,038</u>	<u>7,991</u>	<u>(C)</u>
Total Costs incurred	<u>\$ 117,000,000</u>	<u>\$ 31,582,464</u>	<u>\$ 15,241</u>	<u>\$ 29,039</u>	<u>\$ 44,280</u>	
Outstanding fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Cost Share	<u>\$ 7,285,893</u>	<u>\$ 23,173</u>	<u>-</u>	<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.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

Notes to 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. 306-72030620CA000006. 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 Emirate of Afghanistan (IEM) 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 August 1, 2021 through July 31, 2023. The activity for the period July 10, 2020 through July 31, 2021 as previously reported is shown for comparative purposes and contains costs incurred by MSH prior to the start date of the project (July 10, 2020) which were approved by USAID for charging under the Agreement.

(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 the MSH's operations, including for 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

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

Management Sciences for Health, Inc.

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For the Period of August 1, 2021 through July 31, 2023

Notes to Special Purpose Financial Statement¹ (Continued)

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 and applied the modified prospective method of adoption. Under the modified prospective method, MSH revenues reported through June 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 SFPS matches amounts reported on quarterly Federal Financial Reports (Forms SF 425) without exception. Cash receipts from USAID totaled \$31,582,464 for the period of August 1, 2021 – July 31, 2023.

(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, 2023, MSH recorded \$23,173 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 have been earned that exceed the costs incurred or charged to the Agreement and an amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

(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.

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Notes to Special Purpose Financial Statement¹
(Continued)

(10) Indirect Cost

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

TYPE	FROM	THROUGH	INDIRECT COST RATE				
			FRINGE BENEFITS (a)	OVERHEAD (b)	EMPLOYEE OVERHEAD (c)	CONSULTANT & FOREIGN PROFESSIONAL OVERHEAD (d)	G&A (e)
Final	07-01-18	06-30-19	N/A%	N/A	134.36%	81.78%	N/A
Final	07-01-19	06-30-20	25.64%	13.60%	N/A	N/A	24.78%
Final	07-01-20	06-30-21	24.09%	8.76%	N/A	N/A	19.32%
Provisional	07-01-21	06-30-22	24.48%	10.08%	N/A	N/A	17.79%
Provisional	07-01-22	Until Amended	26.12%	12.83%	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. The indirect cost 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 July 31, 2023 as covered by the SPFS. This analysis was performed through 11/21/2024.

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

(Continued)

Management Sciences for Health, Inc.

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Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Travel & Transportation

MSH reported a total of \$1,543,911 for Travel & Transportation for the period of August 1, 2021 through July 31, 2023. During our audit of these costs, we noted one (1) instances where an unallowable cost was charged to the program, which resulted in ineligible Travel & Transportation costs of \$537. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.

(B) Other Direct Costs

MSH reported a total of \$5,011,430 for Other Direct Costs for the period of August 1, 2021, to July 31, 2023.

During our audit of these costs, we noted the following:

- Two (2) instances where MSH did not provide evidence of adequate procurement taking place, resulting in unsupported costs of \$24,001. See **Finding No. 2024-01** in the *Schedule of Findings and Questioned Costs* section of this report.
- One (1) instance where MSH charged an unallowable cost to the program, resulting in ineligible costs of \$11,751. See **Finding No. 2024-02** in the *Schedule of Findings and Questioned Costs* section of this report.

The issues identified above resulted in total ineligible Other Direct Costs of \$11,751 and total unsupported costs of \$24,001.

(C) Indirect Costs

MSH reported a total of \$7,170,593 for Indirect Costs for the period of August 1, 2021 through July 31, 2023.

The indirect costs associated with the questioned costs identified in **Note A** and **Note B** above resulted in total unsupported indirect costs of \$7,991.

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.
Arlington, Virginia

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Sciences for Health, Inc. (MSH) under Cooperative Agreement No. 72030620CA00006 (Cooperative Agreement) in support of the Assistance for Families and Indigent Afghans to Thrive for the period of August 1, 2021 through July 31, 2023. We have issued our report thereon dated November 21, 2024 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 August 1, 2021 through July 31, 2023, we considered Management Sciences for Health, Inc.'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 Management Sciences for Health, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Management Sciences for Health, Inc.'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, material weaknesses may exist that have not been identified. We identified three (3) deficiencies in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. Findings 2024-01, 2024-02, and 2024-03 are considered to be significant deficiencies.

MSH's Response to Findings

Management Sciences for Health, Inc.'s response to the findings identified in our audit is included verbatim at the *Appendix A*. Management Sciences for Health, Inc.'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 Management Sciences for Health, Inc.'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, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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 21, 2024

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Management Sciences for Health, Inc.
Arlington, Virginia

To the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)
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 Sciences for Health, Inc. (MSH) under Cooperative Agreement No. 72030620CA00006 (Cooperative Agreement) in support of the Assistance for Families and Indigent Afghans to Thrive for the period of August 1, 2021 through July 31, 2023. We have issued our report thereon dated November 21, 2024 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Management Sciences for Health, Inc.'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 Cooperative Agreement, 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 three (3) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2024-01, 2024-02, and 2024-03.

Management Sciences for Health, Inc.'s Response to Findings

Management Sciences for Health, Inc.'s response to the findings identified in our audit is included verbatim at the *Appendix A*. Management Sciences for Health, Inc.'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, and the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is not intended to be and should not be used by anyone other than these specified parties. The 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 21, 2024

(Continued)

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
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Schedule of Findings and Questioned Costs

Finding 2024-01: Missing procurement documentation

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

Condition: Conrad tested 58 samples out of 18,239 transactions in the Other Direct Cost category, representing \$1,231,959 out of a total of \$5,011,430 to determine if costs incurred under the Cooperative Agreement were allowable, reasonable, and adequately supported.

During our review, we noted two (2) instances where MSH did not provide procurement documentation such as a request for quotation, comparative bid analysis, and vendor quotes to show that competitive bidding was performed for a money service provider used. MSH stated that due to the emergency situation in Afghanistan, the normal procurement procedures or non-competitive procedures were not followed. MSH informed USAID that they would be using this vendor; however, the letter to USAID did not mention that they would skip procurement procedures nor that the vendor would not be competitively procured. This resulted in total questioned costs of \$29,039.

Criteria:

MSH’s Procurement of Goods & Commercial Services Outside the U.S. procedures, states in part:

“Selecting Vendors Based on a Thorough Justification for Noncompetitive Procurement

The following process shall be completed by Authorized Purchasers when issuing a Purchase Order (PO) based on a thorough Justification for Noncompetitive Procurement:

1. Consider whether it is possible to revise the specifications and/or scope of work in a way that would allow vendors to propose alternative products or solutions.

- If you feel that a noncompetitive procurement is truly the only option Complete questions #1-#10 of the JUSTIFICATION FOR NONCOMPETITIVE PROCUREMENT form. Lack of proper planning is NEVER an acceptable justification for awarding a purchase without adequate competition. Use of “unusual and compelling urgency” as the justification for awarding on a noncompetitive basis is meant to be used in cases where there has been a natural or manmade disaster, or major political/military disturbance, not when a project has failed to plan ahead...”*

MSH Country Office Procurement Procedures, states in part:

“Procurement in Emergencies Thresholds

#	Procurement Thresholds (USD\$)	Procurement Methods Possible	Evaluator	# of Vendors Approached	Corporate Procurement
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Management Sciences for Health, Inc.

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Schedule of Findings and Questioned Costs (Continued)

					Approval Required?
1	Below \$3,000	- Direct Solicitations from Vendors <u>on</u> the Approved Preferred Vendor List	Authorized Purchaser	1 vendor	No
2	\$3,000 - \$9,999	- Shopping from Vendors <u>on</u> the Approved Vendor list - Restricted Solicitations	Authorized Purchaser	At least 3 vendors	No
3	\$10,000 - \$49,999	- Shopping from Vendors <u>on</u> the Approved Vendor list - Restricted Solicitations	Authorized Purchaser	At least 3 vendors	Yes
4	\$50,000 - \$99,999	- Shopping from Vendors <u>on</u> the Approved Vendor list - Restricted Solicitations	Procurement Committee	At least 5 vendors	Yes
5	\$100,000 and above	- Shopping from Vendors <u>on</u> the Approved Vendor list - Restricted Solicitations	Procurement Committee	At least 5 vendors	Yes

2 CFR 200.319 Competition, states in part:

“(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids or requests for proposals must be excluded from competing for such procurements...”

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...

(c) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity...”

(Continued)

Management Sciences for Health, Inc.

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Schedule of Findings and Questioned Costs (Continued)

Cause: MSH did not have adequate management oversight for ensuring either its normal procurement procedures or noncompetitive procurement procedures were followed during emergency situations.

Effect: MSH may not have achieved the most advantageous price for the U.S. government resulting in potential overpayment of program costs.

Questioned Costs: We identified \$24,001 in unsupported costs and \$5,038 in associated indirect costs, which resulted in \$29,039 in total costs questioned.

Recommendation:

- (1) We recommend that MSH provide evidence demonstrating the money service provider was most economical and competitive, or return \$29,039 of unsupported costs.
- (2) We recommend that MSH develop and implement adequate management oversight policies and procedures to ensure normal procurement procedures or non-competitive procurement procedures are followed during emergency situations.

(Continued)

Management Sciences for Health, Inc.

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-02: Unallowable costs were charged to the Program

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

Condition: Conrad tested 58 samples out of 18,239 transactions in the Other Direct Cost category, representing \$1,231,959 out of a total \$5,011,430, and 50 samples out of 3,997 transactions in the Travel & Transportation category, representing \$325,169 out of \$1,543,911 to determine if costs incurred under the Cooperative Agreement were allowable, reasonable, and adequately supported.

During our review, we noted two (2) instances where MSH charged unallowable costs to the Program as follows:

- One (1) instance in Travel where a fine was charged as a result of a work permit cancellation. This resulted in questioned costs of \$537.
- One (1) instance in Other Direct Costs where MSH acknowledged that U.S. government was overcharged due to a booking error made on an employee's expense report. The amount of \$11.76 was recorded as \$11,763.05. This resulted in total questioned costs of \$11,751. MSH performed an impact analysis on similar transactions and did not identify any other recording errors.

This resulted in total ineligible costs of \$12,288.

Criteria:

MSH Country Office Finance Procedures Manual, states in part:

“The US government as a matter of law and regulation will not reimburse contractors for certain types of costs it may incur. This does not mean that an organization is not allowed to incur these costs; it simply means the government is not willing to pay for them, either directly or indirectly, through government contracts. To manage these expenses, MSH has separate accounts set up in Costpoint to avoid charging them to contracts. These costs are generally referred to as Unallowable Costs. Also, the government will not knowingly negotiate a contract based on cost including any unallowable costs. Unallowable costs are prohibited from any billing, proposal or claim. Also, penalties can be assessed for passing such costs onto the government. Costs can be made unallowable by regulation (Office of Management and Budget (OMB) 2CFR 200 subpart E), by statute or by contracting/grant officer decision.”

MSH Country Office Finance Procedures Manual, states in part:

“1.6.6. Monitoring and Oversight

(Continued)

Management Sciences for Health, Inc.

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Schedule of Findings and Questioned Costs (Continued)

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies or management and deficiencies are communicated to management and the board of directors as appropriate.

• Full disclosure includes sharing relevant and material information to management at the HQ PDG (Program Delivery Group), CFO, HQ RMU, HQ Accounting as it relates issues that materially impact the financial statements. This includes errors, omissions, ineligible costs, potential litigation, penalties, fraudulent acts, legal compliance breaches etc. The Project director and Finance lead should include these in the MFR (Monthly Financial Report) under the disclosure section. This should also be disclosed in the MSH Quarterly Certification reporting mechanism...

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.”

2 CFR 200.302(b)(2), Financial Management, states in part:

*“(b)The recipient’s and subrecipient’s financial management system must provide for...:
(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program...”*

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...”

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...
(c)Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity...”*

(Continued)

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
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Schedule of Findings and Questioned Costs (Continued)

Cause: MSH field office finance team and management team did not follow their policies and procedures regarding unallowable costs, which resulted in? erroneous charges to the Program and ineligible costs, such as fines.

Effect: MSH charged unallowable costs to the Program.

Questioned Costs: We identified \$12,288 in ineligible costs and \$2,953 in associated indirect costs, which resulted in \$15,241 in total questioned costs.

Recommendation:

- (1) We recommend that MSH either provide evidence to support the costs questioned were allowable or return \$15,241 of ineligible costs.
- (2) We recommend that MSH develop and implement policies and procedures to ensure its field office finance and management team properly follow its finance manual to ensure MSH does not charge to the Program unallowable costs, due to errors or costs that are ineligible.

(Continued)

Management Sciences for Health, Inc.

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Schedule of Findings and Questioned Costs (Continued)

Finding 2024-03: MSH overpaid a vendor supplying vehicle rental services by \$5,521

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

Condition: During our inquiries with MSH management regarding alleged fraud, MSH received a report of potential allegations involving improper hiring and procurement of a vendor that was performed by the Program's Senior Security Officer. MSH stated that although the investigation found that the alleged fraud was unsubstantiated, objective evidence showed that the procurement process had been tainted by potential conflict of interest between the Senior Security Officer and the vendor. Furthermore, it appeared that the lowest bidder had been rejected without legitimate reason. The MSH? investigation concluded that they had overpaid the vendor supplying vehicle rental services by \$5,521. MSH has credited the amount back to the Program.

Criteria:

MSH Country Office Finance Procedures Manual, states:

"1.5. Ethical Principles and Standards

Members of the finance and accounting community of MSH, as well as all country office staff, have a responsibility to comply with and uphold the standards of Competence, Confidentiality, Integrity, and Credibility. Failure to comply may result in disciplinary action.

- *Competence: You shall maintain an appropriate level of professional leadership and expertise by enhancing knowledge and skills. This includes performing your professional duties in accordance with relevant laws, regulations, and technical standards. You will provide decision support information and recommendations that are accurate, clear, concise, and timely.*
- *Confidentiality: You must keep information confidential except when disclosure is authorized or legally required. You will inform all relevant parties regarding appropriate use of confidential information. You will refrain from using confidential information for unethical or illegal advantage.*
- *Integrity: You must report all actual conflicts of interest as they relate to you. You shall also report conflicts of interest of other member of staff if they become apparent. You must refrain from engaging in any conduct at work that may prejudice you carrying out your duties ethically.*
- *Credibility: You shall communicate information fairly and objectively. You shall provide all relevant information that could reasonably be expected to influence an intended user's understanding of the reports, analyses, or recommendations. You must report any delays or deficiencies in information, timeliness, processing, or internal controls in conformance with organization policy and/or applicable law.*

(Continued)

Management Sciences for Health, Inc.

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Schedule of Findings and Questioned Costs (Continued)

MSH Country Office Finance Procedures Manual, states:

“1.6.6. Monitoring and Oversight

Ongoing evaluations, separate evaluations, or some combination of the two are used to ascertain whether each of the five components of internal control, including controls to affect the principles within each component, is present and functioning. Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations, and other management considerations. Findings are evaluated against criteria established by regulators, recognized standard-setting bodies or management and deficiencies are communicated to management and the board of directors as appropriate.

*• Full disclosure includes sharing relevant and material information to management at the HQ PDG (Program Delivery Group), CFO, HQ RMU, HQ Accounting as it relates issues that materially impact the financial statements. This includes errors, omissions, ineligible costs, potential litigation, penalties, fraudulent acts, legal compliance breaches etc. The Project director and Finance lead should include these in the MFR (Monthly Financial Report) under the disclosure section. This should also be disclosed in the **MSH Quarterly Certification** reporting mechanism...*

1.8. Fraud and Dishonesty Procedures

False claims are a specific type of fraud. They are any claims that an individual presents or causes to be presented despite knowing the claim is false or fraudulent. The False Claims Act imposes severe civil penalties which could result in individuals and/or MSH paying three times the amount of damages sustained by the US Government, in addition to substantial penalties for each claim or invoice, and limit or prohibit MSH from engaging in future business with the US Government. Examples of situations that may constitute a false claim include:

- Failure to return money owed to the U.S. Government*
- Overcharging for a product or service,*
- Fraudulently reporting results*
- Underpaying money owed to the Government and;*
- Charging for one thing or service while providing another.”*

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.

Cooperative Agreement No. 72030620CA00006
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Schedule of Findings and Questioned Costs (Continued)

Cause: MSH field office employees did not follow its finance manual to perform ongoing evaluations to ensure improper procurement practices were either prevented or caught in a timely manner. This led to improper procurement practices being identified through a reported allegation.

Effect: There is no cost effect since MSH credited the overpaid amount back to the Program.

Questioned Costs: There are no associated costs questioned with this finding, as MSH credited the overpaid amount back to the Program.

Recommendation:

- (1) We recommend that MSH develop and implement policies and procedures to ensure its monitoring and oversight procedures are strengthened in order to prevent and identify any improper procurement practices, such as identifying conflicts of interest, in a timely manner.

(Continued)

Management Sciences for Health, Inc.

Cooperative Agreement No. 72030620CA00006
Awarded by the United States Agency for International Development
in support of the Assistance for Families and Indigent Afghans to Thrive

For the Period of August 1, 2021 through July 31, 2023

Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from MSH, SIGAR, and USAID pertaining to Cooperative Agreement activities under this audit. We identified two (2) prior audit reports which contained four (4) findings and associated 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 MSH's management, and performed testing of similar activities during our audit. We have summarized the results of our procedures below:

1. Management Sciences for Health, Inc. –Financial Statements and Report of Independent Certified Public Accountants 06/30/2022 and 06/30/2021

Finding 2022-001: Late subrecipient monitoring submission.

Issue: Under the requirements of the Federal Funding Accountability and Transparency Act (FFATA) (Pub. L. No. 109-282), codified in 2 CFR 170.330, the disbursement should be reported in the FFATA Subaward Reporting System (FSRS) no later than the last day of the month following the month in which the subaward amendment obligation was made or the subcontract award modification was made. FFATA monitoring submissions were not submitted timely in in the FSRS.

Status: For the current engagement, Conrad reviewed MSH's general ledger and tested transaction samples for the audit period, as well as completed compliance testing for the audit period. Based on our testing, this issue was not repeated. As such, we concluded that MSH has taken adequate corrective action on this finding.

2. Management Sciences for Health, Inc. Assistance for Families and Indigent Afghans to Thrive Special Purpose Financial Statement For the Period July 10, 2020 through July 31, 2021

Finding 2022-01: Personnel positions charged to the Award are not listed in the approved budget.

Issue: MSH charged costs to the Award for two (2) positions that were not specifically listed in the approved budget.

Status: For the current engagement, Conrad reviewed MSH's general ledger and tested transaction samples for the audit period. Based on our testing, this issue was not repeated. As such, we concluded that MSH has taken adequate corrective action on this finding.

Finding 2022-02: Employees were paid in excess of the respective National Technical Assistance (NTA) salary amount.

Issue: Conrad noted three (3) employees were paid in excess of the NTA salary scale step/grade amount.

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Status of Prior Audit Findings (Continued)

Status: For the current engagement, Conrad reviewed MSH's general ledger and tested transaction samples for the audit period. Based on our testing, this issue was not repeated. As such, we concluded that MSH has taken adequate corrective action on this finding.

Finding 2022-03: MSH incorrectly charged a Subaward overbilling and travel related penalty fees to the Award.

Issue: Conrad noted an instance where a sub-awardee overbilled for consultant fees and airfare change penalty fee.

Status: For the current engagement, Conrad reviewed MSH's general ledger and tested transaction samples for the audit period. Based on our testing, this issue was repeated. Please see **Finding 2024-02** in the *Schedule of Findings and Questioned Costs*.

(Continued)

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For the Period of August 1, 2021 through July 31, 2023

MSH's Responses to Audit Findings



November 13, 2024

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

Subject: MSH Management Response to Audit Findings Reported in Conjunction with the Financial Audit of Costs Incurred Under Cooperative Agreement No.72030620CA00006 – Assistance for Families and Indigent Afghans to Thrive ("AFIAT")

Finding 2024-01: Missing procurement documentation

MSH Management Response

MSH respectfully disagrees with the findings and questioned costs.

Starting around August 15, 2021, the Taliban's uncoordinated takeover of the government led to the collapse of the banking system in Afghanistan. This abrupt and sudden event impacted MSH and other implementing organizations, preventing them from using banking services to pay staff and vendors leaving no room to plan treasury measures.

Reference to CNN article '[No one has money' Under Taliban rule, Afghanistan's banking system is imploding | CNN Business](#).

The flow of USD currency ceased completely, leaving no means for anyone to access funds for personal or business use. In the weeks following the takeover, a few local banks reopened, but only to access inward transfers and deposits, with no assurance of making payments out. Eventually, they started to allow withdrawals of a maximum of \$100 per person per week, and later per day. These restrictions caused significant distress to our staff and vendors, who sought alternative measures from organizations like MSH to make cash available for services rendered.

Due to these significant challenges, the leadership team at MSH AFIAT and other implementing partners sought alternate money providers outside the banking system to ensure prompt payment and continuity of services during this unprecedented time. After reviewing more than 10 local Hawala money transfer agents and one UK based agent, and after consulting with other implementing partners and securing USAID approval, MSH AFIAT identified this UK-based money transfer company, [REDACTED] that was more authentic, trusted and promised efficient service across the country. The conditions and environment left no credible alternative money transfer agency capable of delivering this service. Additionally, local money transfer companies, which are mostly informal family-led businesses, would fail the US verification tests.

The MSH AFIAT leadership consulted the MSH Treasurer and VP Chief Financial Officer for exceptional approval to proceed with [REDACTED] a request that was approved in line with MSH Financial and Procurement Procedures.

It is important to note that banking restrictions continued for an additional seven months after the Taliban takeover. For example, as of February 2022, six months after the restrictions were imposed, approximately 20% of the AFIAT staff were still unable to access their full bank accounts, including salary

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MSH's Responses to Audit Findings (Continued)



payments. Additionally, vendors began to refuse to work with MSH AFIAT due to payment terms and liquidity issues, preferring to be paid in cash. However, with the limitations around cash withdrawals, cash payments to employees and vendors were not a viable solution. The banking systems continued to be fragile, with a serious risk of collapse.

To ensure that AFIAT could continue its work in the country, the team actively worked to identify additional solutions to bring money into the country and make necessary payments. Although AFIAT intended to continue working through the institutional banking system for most payments, as long as the banking systems functioned, the supplementary banking system was intended to serve as a backup and help resolve ongoing problems such as staff access to cash.

With the above background, below outlines the procurement procedures followed to identify an alternative money transfer agent. The AFIAT procurement staff began to explore alternative payment systems which included two options:

1. Hawala System: Hawala is an informal method of transferring money outside of the traditional banking system without any physical money actually moving. It largely relies on trust and personal relationships rather than a formal banking system. Although trusted in Afghanistan as a reasonable cash transfer method, there are inherent risks.
2. [REDACTED] is a prepaid arrangement and is more secure than the Hawala system as [REDACTED] a British for-profit organization with more than 15 years of experience working in countries like Afghanistan and Syria. They partner with charities experiencing challenges in the absence of banks to deliver financial support directly to people experiencing severe stress in crisis areas. They have worked with many international donors such as USAID, DFID, EU, GAC, etc. and use an online system and software which can generate payment reports each month, which allows for the necessary paper trail to confirm compliance and follow proof of payment.

As noted by the auditors, MSH's internal policies regarding Procurement of Goods & Commercial Services Outside the U.S. states:

"The following process shall be completed by Authorized Purchasers when issuing a Purchase Order (PO) based on a thorough Justification for Noncompetitive Procurement:

1. Consider whether it is possible to revise the specifications and/or scope of work in a way that would allow vendors to propose alternative products or solutions.
 - If you feel that a noncompetitive procurement is truly the only option Complete questions #1-#10 of the JUSTIFICATION FOR NONCOMPETITIVE PROCUREMENT form. Lack of proper planning is NEVER an acceptable justification for awarding a purchase without adequate competition. Use of "unusual and compelling urgency" as the justification for awarding on a noncompetitive basis is meant to be used in cases where there has been a natural or manmade disaster, or major political/military disturbance, not when a project has failed to plan ahead."

Given the "unusual and compelling urgency" that the team was experiencing in Afghanistan during this time, using MSH's standard competitive procurement process (issuing an RFQ) for this particularly complex issue was not feasible. That said, the MSH procurement team did perform and document their due diligence around collecting and collating information of over ten (10) Hawala merchants, including

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MSH's Responses to Audit Findings (Continued)



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physical addresses, contact information, valid money service licenses, exchange rate terms, applicable fees, ability to provide cash in a timely manner, liquidity concerns, and whether or not their past performance includes additional NGOs/USAID implementing Partners. MSH also participated in a joint working group of USAID implementing Partners investigating the use of Hawalas during these urgent and unprecedented circumstances.

Given the above description of the due diligence conducted, MSH respectfully disagrees with the auditor's determination that MSH did not have adequate management oversight for ensuring either its normal procurement procedures or noncompetitive procurement procedures were followed during emergency situations.

By carrying out due diligence on over 10 potential vendors and participating in a joint working group of USAID implementing partners, the AFIAT procurement team exceeded the required internal threshold of evaluating at least 5 potential vendors. In this regard, by selecting [REDACTED] AFIAT was able to ensure that we mitigated risks associated with unsanctioned banking processes and potential fraud. The selection and use of [REDACTED] ultimately ensured that AFIAT was safeguarding US government funds to the best of our ability and demonstrating the money service provider was most economical and competitive.

Furthermore, the auditors point to the following regulations:

2 CFR 200.319 Competition, states in part:

"(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids or requests for proposals must be excluded from competing for such procurements..."

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...
(c) Be consistent with policies and procedures that apply uniformly to both federally financed and other activities of the non-Federal entity..."

MSH respectfully reiterates that due diligence was carried out on over ten (10) organizations and ultimately selected an international banking vendor thereby reducing the potential for unfair competitive advantage. Additionally, MSH determined that considering the unprecedented political instability and its effects on the banking institutions in-country, that the selection of [REDACTED] and the associated fees for use of this service are necessary and reasonable to ensure availability of cash for our staff and vendors to ensure a smooth and uninterrupted implementation of the AFIAT program. The selection of [REDACTED] was done in line with MSH's policies and procedures in light of the "unusual and compelling urgency" justification.

In MSH's detailed analysis of the viable banking options, it was determined that many organizations have used Hawala successfully. However, MSH felt that the use of Hawalas presented a riskier option requiring complicated and robust risk mitigation protocols in order to safeguard funds. As a result of the procurement team's analysis, [REDACTED] as determined to be more secure than the use of Hawalas

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MSH's Responses to Audit Findings (Continued)



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and it was determined that it would be preferable to use [REDACTED] as the primary alternate to the banking system and Hawala as the last option, if absolutely necessary.

Responsible Management Official:

Gordon Kihuguru

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

[REDACTED]
Tel (IP): +17036673959

Finding 2024-02: Unallowable costs were charged to the Program

MSH Management Response

MSH agrees with the findings and questioned costs. MSH has also taken steps to reverse the unallowable amount of \$11,751 by crediting the amount back to the AFAT project in November 2024 and the credits shall be reflected in this quarters report.

\$537 penalty cost was incurred for the cancellation delay of a work permit due to circumstances beyond the control of MSH or the individual at the time the cancellation fee was incurred. This was due to the emergency evacuation of staff from the country and a change in government. The consequence of this work permit cancellation charge resulted in an error from improper application of existing policy and procedure under MSH's country finance procedures manual section 1.12.5. "MSH Account codes for Disallowed Costs." Appropriate remediation has been undertaken to reverse these unallowable costs and further reinforce staff understanding of existing policies and procedures.

In the second instance under Other Direct Costs MSH acknowledged that U.S. government was overcharged due to a clerical error made on an employee's expense report. Due to clerical error, the amount of \$11.76 was recorded as \$11,763.05. This resulted in total questioned costs of \$11,751. MSH performed an impact analysis on similar transactions to determine if the error was an isolated incident or a pattern and did not identify any other such errors.

Responsible Management Official

Gordon Kihuguru

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

[REDACTED]

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MSH's Responses to Audit Findings (Continued)



Management Sciences for Health (MSH) is a 501(c)(3) nonprofit organization.

Finding 2024-03: MSH overpaid a vendor supplying vehicle rental services by \$5,521
MSH Management Response

MSH Management Response

MSH agrees with this finding. MSH confirms that it has developed and implemented appropriate policies and procedures that ensure the monitoring and oversight procedures that prevent and identify any improper procurement practices, such as identifying conflicts of interest. The finding itself indicates that these policies and procedures are continually being strengthened and they also ensure that issues are identified in a timely manner.

Responsible Management Official
Gordon Kibuguru
Chief Financial Officer, Treasurer & Vice President
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4301 Fairfax Dr, Arlington, VA 22203, United States



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

MSH disagreed with Finding 2024-01 and agreed with Findings 2024-02 and Finding 2024-03. Since MSH agreed with finding Findings 2024-02 and 2024-03, no rebuttal is necessary for these two findings. Below is our rebuttal to MSH's response on Finding 2024-01.

Finding 2024-01

MSH disagreed with the finding stating that 1) the Taliban's uncoordinated takeover of the government led to the collapse of the banking system in Afghanistan, forcing MSH to switch to new money transfer agents; 2) their procurement team did perform and document their due diligence around collecting and collating information of over ten Hawala merchants; 3) MSH participated in a joint working group of USAID Implementing Partners investigating the use of Hawalas during the time period.

Auditor's Rebuttal

The issue here is directly related to MSH's inability to provide evidence showing a competitive procurement process took place. MSH references a procurement process involving over ten Hawala merchants, however, no documentation was provided to support this claim. Additionally, MSH mentions communication with USAID regarding the use of [REDACTED] however, the only documentation provided a vetting request, which does not pertain to procurement or a procurement process.

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SIGAR's Mission

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