

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 17-50 Financial Audit

USAID's Strengthening Pharmaceutical Systems Program: 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.**



June
2017

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On August 29, 2011, the U.S. Agency for International Development (USAID) awarded a cooperative agreement to Management Sciences for Health Inc. (MSH) to implement the Strengthening Pharmaceutical Systems program. The program was intended to strengthen the Ministry of Public Health's ability to manage pharmaceutical services; monitor the quality of pharmaceutical products entering and used within Afghanistan; and establish a coordinated procurement and distribution system. The cooperative agreement's original period of performance spanned August 29, 2011, through August 27, 2015. As of December 18, 2016, there were 15 modifications, which increased the total estimated costs from \$24,499,936 to \$34,399,936 and extended the period of performance to July 10, 2017.

SIGAR's financial audit, performed by Mayer Hoffman McCann (MHM), reviewed \$13,831,476 in expenditures charged to the cooperative agreement from July 1, 2014, through June 30, 2016. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses 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 MHM's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where MHM did not comply, in all material respects, with U.S. generally accepted government auditing standards.

June 2017

USAID's Strengthening Pharmaceutical Systems: Audit of Costs Incurred by Management Sciences for Health Inc.

SIGAR 17-50-FA

WHAT THE AUDIT FOUND

MHM identified two significant deficiencies in MSH's internal controls and one instance of noncompliance with the terms and conditions of the cooperative agreement. MHM found that MSH charged ██████████ to the agreement for consultants, exceeding the ██████████ maximum budgeted amount by \$840,978, or ██████████ percent. MSH did not have prior approval from USAID to exceed the maximum budgeted amount, as required by the agreement. MHM also found a lack of evidence to support that MSH supervisors reviewed and approved monthly bank reconciliations. MHM stated that not documenting management's review of the reconciliations implies that monitoring controls are either not designed or operating effectively, and could result in identified or unidentified errors or irregularities in transactions that may not be resolved in a timely manner.

As a result of these internal control deficiencies and instance of noncompliance, MHM identified \$840,978 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the agreement, applicable laws, or regulations. MHM did not identify any unsupported costs—costs that are not supported with adequate documentation or did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Consultants	\$840,978	\$0	\$840,978
Totals	\$840,978	\$0	\$840,978

MHM requested copies of prior reports, including audits, reviews, and evaluations, that were pertinent to MSH's activities under the agreement. MHM identified 18 findings and recommendations from four prior reports that could have a material effect on MSH's SPFS. MHM determined that MSH had taken adequate corrective action on all 18 findings and recommendations.

MHM issued a qualified opinion on the SPFS because of the \$840,978 in questioned costs that was identified. As mentioned, these costs, which exceeded MSH's budget by more than five times, did not have USAID's prior approval. As a result, MHM considered the total questioned cost amount to be material to the SPFS.

WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$840,978 in questioned costs identified in the report.**
- 2. Advise MSH to address the report's two internal control findings.**
- 3. Advise MSH to address the report's one noncompliance finding.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

June 29, 2017

Mr. Wade Warren
Acting Administrator, U.S. Agency for International Development

Mr. Herbert Smith
USAID Mission Director for Afghanistan

We contracted with Mayer Hoffman McCann (MHM) to audit the costs incurred by Management Sciences for Health Inc. (MSH) under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Strengthening Pharmaceutical Systems program.¹ MHM's audit covered \$13,831,476 in expenditures charged to the agreement for the period of July 1, 2014, through June 30, 2016. Our contract 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 audit, SIGAR recommends that the responsible agreement officer at USAID:

- 1. Determine the allowability of and recover, as appropriate, \$840,978 in questioned costs identified in the report.**
- 2. Advise MSH to address the report's two internal control findings.**
- 3. Advise MSH to address the report's one noncompliance finding.**

The results of MHM's audit are detailed in the attached report. We reviewed the report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on MSH's Special Purpose Financial Statement. We also express no opinion on the effectiveness of MSH's internal control or compliance with the cooperative agreement, laws, and regulations. MHM is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where MHM did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

We will be following up with your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(FA-093)

¹ USAID awarded cooperative agreement no. 306-A-00-11-00532-00 to MSH to implement the Strengthening Pharmaceutical Systems program, which was intended to strengthen the Ministry of Public Health's ability to manage pharmaceutical services; monitor the quality of pharmaceutical products entering and used within Afghanistan; and establish a coordinated procurement and distribution system.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
Strengthening Pharmaceutical Systems (SPS) Program

For the Period July 1, 2014 through June 30, 2016

Submitted By:
Mayer Hoffman McCann P.C.
SIGAR Contract No. GS-23F-0288N
Order No. HHSP233201600312G

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

For the Period July 1, 2014 through June 30, 2016

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

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TRANSMITTAL LETTER

June 7, 2017

Board of Directors
Management Sciences for Health, Inc.
200 Rivers Edge Drive
Medford, Massachusetts 02155

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

Enclosed is the final report on the financial audit of costs incurred under Cooperative Agreement No. 306-A-00-11-00532-00 ("Agreement"), awarded by the United States Agency for International Development ("USAID") to Management Sciences for Health, Inc. ("MSH") for implementation of the Strengthening Pharmaceutical Systems ("SPS") Program in Afghanistan. The audit covers the period July 1, 2014 through June 30, 2016.

Included within the final report is a summary of the work performed, our report on the Special Purpose Financial Statement, report on internal control and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback and interpretations from MSH, the Special Inspector General for Afghanistan Reconstruction and the United States Agency for International Development. Management of MSH has prepared responses to the findings identified during our audit and those responses are included as part of this report. The responses have not been audited and we express no opinion on them.

Sincerely,

MAYER HOFFMAN McCANN P.C.

A blue ink signature of Marcus D. Davis, consisting of a stylized 'M' and 'D' followed by a flourish.

Marcus D. Davis, CPA
Shareholder

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

For the Period July 1, 2014 through June 30, 2016

Background

On August 29, 2011, the United States Agency for International Development ("USAID") awarded Cooperative Agreement No. 306-A-00-11-00532-00 ("Cooperative Agreement") to Management Sciences for Health, Inc. ("MSH" or "Company") for implementation of the Strengthening Pharmaceutical Systems ("SPS") Program to improve Afghanistan's pharmaceutical regulatory system. The SPS Program was designed to improve Afghanistan's pharmaceutical regulatory system, supply chain management, human resource capacity, pharmaceutical services, and information systems. Under the SPS Program and in line with USAID/Afghanistan's objectives and the Ministry of Public Health's (MoPH) strategic plans, SPS was to focus on health systems by strengthening the pharmaceutical sector. Specifically, the SPS Program was intended to strengthen MoPH's ability to: improve the rational use of medicine; manage pharmaceutical services; monitor the quality of pharmaceutical products entering and used within the country; and establish a coordinated procurement and distribution system. Other activities include focusing on essential medicine distribution and providing technical assistance in pharmaceutical management.

The initial award, structured as a reimbursable cost incurred cooperative agreement, with an estimated total funding of \$24,499,936, had an initial obligated amount of \$4,600,000 funding the program through March 30, 2012. The Cooperative Agreement's original period of performance spanned August 29, 2011 through August 27, 2015. The Cooperative Agreement was modified 14 times through August 29, 2016, including a modification extending the period of performance to July 10, 2017. In addition, the modifications increased funding for the Cooperative Agreement to \$34,399,936. Modifications that have a key impact on the original Cooperative Agreement are described on the following page:

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-00-11-00532-00 SPS Program

For the Period July 1, 2014 through June 30, 2016

<u>Modification No</u>	<u>Effective Date</u>	<u>Significance</u>
3	12/11/12	Increased the incremental funding obligated amount by \$4,000,000, which resulted in a total obligated amount of \$8,600,000 funded through December 2013. The estimated total Cooperative Agreement amount remained unchanged at \$24,499,936.
4	05/27/13	Increased the incremental funding obligated amount by \$5,000,000, which resulted in a total obligated amount of \$13,600,000 funded through September 2014. The estimated total Cooperative Agreement amount remained unchanged at \$24,499,936.
6	03/31/14	Increased the incremental funding obligated amount by \$4,752,246, which resulted in a total obligated amount of \$18,352,246. The estimated total Cooperative Agreement amount remained unchanged at \$24,499,936.
9	12/17/14	Increased the incremental funding obligated amount by \$6,147,690, which resulted in a total obligated amount of \$24,499,936. The estimated total Cooperative Agreement amount remained unchanged at \$24,499,936.
10	12/17/14	Extended the period of performance, by one month, to September 27, 2015 at no additional cost.
11	09/27/15	Increased the estimated total Cooperative Agreement by \$9,900,000 to \$34,399,936 and extended the period of performance to July 10, 2017. The total obligated amount remained \$24,499,936.
12	10/22/15	Increased the incremental funding obligated amount by \$6,000,000, which resulted in a total obligated amount of \$30,499,936 funded through September 2016. The estimated total Cooperative Agreement amount remained unchanged at \$34,399,936.
14	08/29/16	Increased the incremental funding obligated amount by \$3,900,000, which resulted in a total obligated amount of \$34,399,936 funded through September 2016. The estimated total Cooperative Agreement amount remained unchanged at \$34,399,936.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

For the Period July 1, 2014 through June 30, 2016

Founded in 1971, MSH is a U.S. company based in Massachusetts. The Company is tax exempt under Section 501(c)(3) of the Internal Revenue Code. MSH is a nonprofit organization that develops programs focusing on leadership, health systems management, health service delivery, human resources, and medicines. The Company provides healthcare consulting for: the Human Immunodeficiency Virus ("HIV") and Acquired Immune Deficiency Syndrome ("AIDS"); tuberculosis; maternal, newborn, and child health; family planning and reproductive health; and other communicable diseases, including malaria, pandemic, and avian influenza. In addition, the MSH provides healthcare policy development, healthcare program planning and implementation, and monitoring and evaluation services.

Work Performed

Mayer Hoffman McCann P.C. ("MHM") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of MSH's SPS Special Purpose Financial Statement ("SPFS") for the period July 1, 2014 through June 30, 2016

Objectives, Scope and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *The Special Purpose Financial Statement (SPFS)* – Express an opinion on whether MSH's SPFS for the Agreement presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of MSH's internal control related to the 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 Agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the 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.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

For the Period July 1, 2014 through June 30, 2016

Scope

The scope of this audit included all costs incurred during the period July 1, 2014 through June 30, 2016 under the Agreement. Our testing of overhead was limited to determining that the overhead was calculated using the correct final negotiated overhead rate or provisional overhead rate, as applicable for the given fiscal year, as approved by USAID. We did not encounter any scope limitations in performing the 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 via conference call on October 3, 2016. Participants included representatives of MHM, MSH, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of MSH;
- Reviewed the Agreement and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the Agreement, Federal Acquisition Regulation (FAR) Part 31 and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we tested 100% of the transactions.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-00-11-00532-00 SPS Program

For the Period July 1, 2014 through June 30, 2016

- For high risk cost categories, we sampled transactions greater than \$69,200 not to exceed 50% of the total amount expended for each cost category
- For medium risk cost categories, we sampled transactions greater than \$138,400 not to exceed 20% of the total amount expended for each cost category.
- For low risk cost categories, we sampled transactions that are greater than \$138,400 not to exceed 10% of the total amount expended for each cost category, not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Internal Control Related to the SPFS

We reviewed and evaluated MSH's internal controls related to the SPFS. This review and evaluation was accomplished through interviews with management and key personnel, review of policies and procedures, identifying key controls within significant transaction cycles, and testing those key controls.

Compliance with Agreement Requirements and Applicable Laws and Regulations

We reviewed the Agreement and modifications and documented all compliance requirements that could have a direct and/or material effect on the SPFS. We assessed inherent and control risk as to whether material noncompliance could occur. Based upon our risk assessment, we designed procedures to test a sample of transactions to ensure compliance.

Corrective Action on Prior Findings and Recommendations

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Agreement and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement and reasonable.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-00-11-00532-00 SPS Program

For the Period July 1, 2014 through June 30, 2016

Exit Conference

An exit conference was held on February 6, 2017, via conference call. Participants included MHM, MSH, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by MSH under the Agreement with USAID identified the following audit results. Findings are classified as either significant deficiencies in internal control, noncompliance with rules, laws, regulations, or the terms and conditions of the Agreement; or a combination of significant deficiencies in internal control and noncompliance.

Auditor's Opinion on SPFS

We issued a qualified opinion on the fairness of the presentation of the SPFS. We also identified \$840,978 of questioned costs under the Agreement. A summary of findings and questioned costs is as follows:

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Costs
2017-1	Internal Control – significant deficiency Compliance	Consultant costs in excess of the approved budget	\$840,978	\$840,978
2017-2	Internal control – significant deficiency	Evidence was not provided that monthly bank reconciliations were reviewed and approved by supervisors	\$0	\$840,978

Internal Control Findings

Our audit discovered two internal control findings, which are classified as significant deficiencies. See Independent Auditor's Report on Internal Control on page 15. The complete management responses from MSH to the internal control finding can be found in Appendix A to this report.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

For the Period July 1, 2014 through June 30, 2016

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and other laws and regulations, noncompliance which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed one instance of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 17. The complete management response from MSH for the compliance finding can be found in Appendix A to this report.

Review of Prior Findings and Recommendations

We requested copies of prior engagements including audits, reviews and evaluations pertinent to MSH's activities under the Agreement. We identified 18 findings and recommendations from prior engagements that could have a material effect on the SPFS and reviewed the corrective actions taken to address the findings and recommendations. MSH has taken adequate corrective action on all 18 prior findings and recommendations. See the Status of Prior Findings on page 19 for a detailed description of the prior findings and recommendations.

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.

- Finding Number 2017-1: MSH disagrees with this finding indicating that Section A.4 of the Cooperative Agreement requires prior approval of transfers between line items of the budget if the transfer exceeds 10% of the total estimated amount of the Cooperative Agreement. Since the costs in excess of budget for the consultants cost category was less than 10% of the total estimated amount of the Cooperative Agreement, MSH did not seek prior approval from USAID. Additionally, MSH states that other situations that require prior approval as outlined in 22 CFR 226.25(c) are not applicable.
- Finding Number 2017-2: MSH agrees that review and approval of the bank reconciliations needs to be documented. The Company provided additional documentation with its response evidencing that a review of the bank reconciliations did occur. This additional documentation is not included as part of the management response in Appendix A.



INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Management Sciences for Health, Inc.
200 Rivers Edge Drive
Medford, Massachusetts 02155

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 Sciences for Health, Inc. ("MSH") under Cooperative Agreement No. 306-A-00-11-00532-00 ("Cooperative Agreement"), with the United States Agency for International Development ("USAID") to support the Strengthening Pharmaceutical Systems (SPS) Program for the period July 1, 2014 through June 30, 2016, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Special Purpose Financial Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments,

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the auditor considers internal control relevant to the entity's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

Basis for Qualified Opinion

We identified several transactions totaling \$840,978 that were questionable due to MSH exceeding its consultant costs budget by more than five times (542%) without the prior approval of USAID. As a result, the total questioned cost amount is considered to be material to the Special Purpose Financial Statement. The ultimate determination of whether the identified questioned costs are to be accepted or disallowed rests with USAID.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by MSH under Cooperative Agreement No. 30-A-00-11-00532-00 for the period July 1, 2014 through June 30, 2016 in accordance with the basis of accounting described in Note 2.

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, 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 USC 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 7, 2017 on our consideration of MSH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and

Board of Directors
Management Sciences for Health, Inc.
200 Rivers Edge Drive
Medford, Massachusetts 02155

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other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSH's internal control over financial reporting and compliance.



Irvine, California
June 7, 2017

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00

Special Purpose Financial Statement

For the Period July 1, 2014 through June 30, 2016

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
306-A-00-11-00532-00	\$ 34,399,936	\$ 13,831,476	\$ -	\$ -	\$ -	(3)
Total revenues	34,399,936	13,831,476	-	-	-	
Costs incurred:						
Salaries and wages			-	-	-	(4)
Overhead			-	-	-	
Travel and transportation			-	-	-	
Allowances			-	-	-	
Subcontracts			-	-	-	
Training			-	-	-	
Equipment		-	-	-	-	
Other direct costs			-	-	-	
Consultants			(840,978)	-	(840,978)	(A)
Total costs incurred	34,399,936	13,831,476	(840,978)	-	(840,978)	
Outstanding fund balance	\$ -	\$ -	\$840,978	\$ -	\$840,978	(5) (B)

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

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-00-11-00532-00 SPS Program

Notes to Special Purpose Financial Statement¹

For the Period July 1, 2014 through June 30, 2016

(1) **Background**

On August 29, 2011, the United States Agency of International Development (“USAID”) awarded Cooperative Agreement No. 306-A-00-11-00532-00 (“Cooperative Agreement”) to Management Sciences for Health, Inc. (“MSH”) for the implementation of the Strengthening Pharmaceutical Systems (“SPS”) Program to improve Afghanistan’s pharmaceutical regulatory system.

The initial award, structured as a reimbursable cost incurred cooperative agreement, with an estimated total funding of \$24,499,936, had an initial obligated amount of \$4,600,000 funding the program through March 30, 2012. The Cooperative Agreement’s original period of performance spanned August 29, 2011 through August 27, 2015. The Cooperative Agreement was modified 14 times for reasons such as modifying contract clauses, increasing the total award amount to \$34,399,936, as well as extending the period of performance to July 10, 2017.

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

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for the SPS Program under the Agreement for the period July 1, 2014 through June 30, 2016. Because the SPFS presents only a selected portion of the operations of MSH, it is not intended to and does not present the financial position, changes in financial position, or cash flows of MSH. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (“SIGAR”), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Agreement.

Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation Part 31 – *Contracts with Commercial Organizations*.

Currency

All amounts presented are shown in U.S. dollars, the reporting currency of MSH. MSH converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by applying the weighted average monthly rate based upon the bank rates used to transfer funds between U.S. dollars and Afghanis.

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

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

Notes to Questioned Costs Presented on Special Purpose Financial Statement²

For the Period July 1, 2014 through June 30, 2016

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable; prohibited by the Cooperative Agreement or applicable laws and regulations; or not Cooperative Agreement related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

(A) Consultants

MSH reported consultant costs in the amount of [REDACTED] for the period July 1, 2014 through June 30, 2016. During our audit of these costs, we noted that MSH exceeded the approved budget per the Cooperative Agreement for consultant costs, and evidence of prior USAID approval of the additional costs was not provided. As such, all expenses in excess of the budgeted amount has been questioned. See Finding 2017-1.

(B) Outstanding Fund Balance

The total outstanding fund balance as of June 30, 2016 in the amount of \$840,978 represents the total questioned costs, consisting of \$840,978 of ineligible costs.

² The Notes to Questioned Costs Presented on 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.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Management Sciences for Health, Inc.
200 Rivers Edge Drive
Medford Massachusetts 02155

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

We have audited, 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, the Special Purpose Financial Statement of Management Sciences for Health, Inc. ("MSH") representing revenues received and costs incurred under Cooperative Agreement No. 306-A-00-11-00532-00 ("Cooperative Agreement"), with the United States Agency for International Development ("USAID") to support the Strengthening Pharmaceutical Systems ("SPS") Program for the period July 1, 2014 through June 30, 2016, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated June 7, 2017. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable

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possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Detailed Audit Findings as Findings 2017-1 and 2017-2 that we consider to be significant deficiencies.

MSH's Response to Findings

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

Purpose of this Report

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

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, 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.

Margen Holt M.C. P.C.

Irvine, California
June 7, 2017



Mayer Hoffman McCann P.C.
An Independent CPA Firm

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**REPORT ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE SPECIAL PURPOSE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Management Sciences for Health, Inc.
200 Rivers Edge Drive
Medford Massachusetts 02155

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

We have audited, 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, the Special Purpose Financial Statement of Management Sciences for Health ("MSH"), representing revenues received and costs incurred under Cooperative Agreement No. 306-A-00-11-00532-00 ("Cooperative Agreement"), with the United States Agency for International Development ("USAID") to support the Strengthening Pharmaceutical Systems ("SPS") Program for the period July 1, 2014 through June 30, 2016, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated June 7, 2017. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSH's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Detailed Audit Findings as Finding 2017-1.

Board of Directors
Management Sciences for Health, Inc.
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Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Purpose of this Report

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

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, 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.

Irvine, California
June 7, 2017

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

Status of Prior Findings and Recommendations

For the Period July 1, 2014 through June 30, 2016

We requested copies of prior engagements including audits, reviews and evaluations pertinent to MSH's activities under the SPS Program. We reviewed the corrective actions taken to address findings and recommendations from prior engagements that could have a material effect on the SPFS. There were four prior engagements with findings and recommendations that were included in the scope of our audit. These engagements identified 18 findings with a potential material effect on the SPFS and/or control deficiencies effect on the Agreement. Based on our review, adequate corrective actions were implemented on all 18 of the prior findings.

SIGAR Financial Audit of Cost Incurred No. 13-4, Cooperative Agreement for the Technical Support to the Central and Provincial Ministry of Public Health Project for the Period July 1, 2006 through December 31, 2012

There were two prior findings and recommendations identified in SIGAR's 13-4 financial audit performed by Mayer Hoffman McCann P.C., two of which are related to the SPFS. The period covered by the audit was July 1, 2006 through December 31, 2012. Based upon our review, adequate corrective action was taken on both findings and recommendations as described below.

- (1) The auditors noted that other direct costs included entertainment expenses for welcome and farewell parties, as well as special holiday celebrations which are unallowable items according OMB Circular A-122 (2 CFR, Part 230), as revised. During our testing of other direct costs charged to the SPS Program, no unallowable items were noted. As such, the corrective action has been adequately implemented.
- (2) The auditors noted that supporting documentation including timesheets and payroll payment vouchers for wages paid to local professionals could not be located. During our testing of salaries and wages, all labor costs were properly supported by timesheets. As such, corrective actions have been adequately implemented.

Audit of Costs Incurred Under Various USAID Awards

Crowe Horwath LLP, an Independent CPA firm, conducted an audit of costs incurred by MSH on behalf of the USAID Office of Inspector General for the following awards:

- SPS Program for the period August 29, 2011 through June 30, 2014
- Leadership Management and Governance (LMG) Program for the period September 25, 2011 through June 30, 2014
- Rural Expansion of Afghanistan's Community-Based Healthcare (REACH) Program for the period April 24, 2003 through December 15, 2006 (Closeout Audit);

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-00-11-00532-00 SPS Program

Status of Prior Findings and Recommendations

(Continued)

- SPS Program for the period July 11, 2007 through July 10, 2012 (Closeout Audit) (Report No.: F-306-15-028-N).

The audit identified five findings and recommendations. Based upon our review, adequate corrective action was taken on all findings and recommendations as described below:

- (1) The auditors noted that the allocation of rental costs were not supported. We tested the allocation of rent to the SPS Program and noted that the allocation was supported and reasonable. As such, the corrective action has been adequately implemented.
- (2) The auditors noted that personnel costs allocated to the LMG Program should have been charged to another program. We reviewed the allocation of costs in payroll and no exceptions were noted. As such, the corrective action has been adequately implemented.
- (3) The auditors noted that the methodology used to allocate costs to the REACH Program was not supported. We reviewed allocations of various costs to the SPS Program and noted that the allocations were supported and reasonable. As such, the corrective action has been adequately implemented.
- (4) The auditors noted that errors existed in the foreign currency conversion for the REACH Program. We tested the exchange rate methodology and noted no errors in calculations. As such, the corrective action has been adequately implemented.
- (5) The auditors noted some transactions for the REACH Program were not supported. During our testing, all transactions tested were properly supported. As such, the corrective action has been adequately implemented.

[REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]
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Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

(Continued)

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

(4) [REDACTED]

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

[REDACTED]

(b) (7)(C), (b) (7)(D)

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

Detailed Audit Findings

For the Period July 1, 2014 through June 30, 2016

Finding Number 2017-1: Consultant Costs in Excess of the Approved Budget

Nature of Finding:

Internal control – significant deficiency
Compliance

Condition:

Total consultant costs charged to the Cooperative Agreement exceeded the budgeted amount for such costs. The costs incurred represented a cost overrun of over [REDACTED] % of the approved budget for consultants.

Total consultant costs	[REDACTED]
Budgeted consultant costs	[REDACTED]
Total consultant costs in excess of budget	<u>\$840,978</u>

No evidence was provided to indicate that MSH had sought or received permission from the Agreement Officer to exceed the maximum budgeted amount for consultants. However, even though consultant costs exceeded the budget, MSH did not exceed the Cooperative Agreement budget in total.

Criteria:

Section A.4, *Award Budget*, of the Agreement states, in part:

“...(1) Prior Approval Required for Transferring Funds among Cost Categories by More than 10% of Total Estimated Amount

In accordance with 22 CFR 226.25(f), the Recipient may not transfer funds among cost categories by more than 10% of the total estimated amount of this Award (See Section 1.3 above) without the prior written approval of the Agreement Officer. Approval is also required for other budget revisions. Even if the budget revision is within the 10% restriction described herein.”

While this criteria within the Agreement refers to transferring funds among cost categories and obtaining prior approval when those transfers exceed 10% of the total estimated amount, the latter portion of the criteria clearly states that Agreement Officer approval is required for other budget revisions even if the revision is less than 10% of the total estimated amount. The consultant costs in excess of budget meet this criteria.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

Detailed Audit Findings

(Continued)

Cause:

MSH exceeded the budgeted Consultants cost category but did not seek prior approval from USAID. Instead, it relied solely upon the portion of Section A.4.(1), *Prior Approval Required for Transferring Funds among Cost Categories by More than 10% of Total Estimated Amount*, of the Cooperative Agreement that requires prior approval from USAID when transferring funds between cost categories by more than 10% of the total Agreement amount, which is approximately \$3.4 million. Since the consultant costs in excess of budget were less than this amount, no prior approval was sought. MSH was unaware of the latter portion of the aforementioned criteria which requires Agreement Officer approval for other budget revisions which are less than 10% of the total estimated amount.

Effect:

Exceeding a budget line item without express prior approval of the Agreement Officer undermines the Government's controls for the types of spending under the Cooperative Agreement and suggests a poor control of costs. Additionally, by not fully reviewing the terms of the Cooperative Agreement, MSH runs the risks of violating specific and unique aspects of the award.

Questioned Costs:

Total ineligible consultant costs due to costs exceeding the budget without prior approval is \$840,978.

Recommendations:

- (1) We recommend that MSH either provide evidence to USAID as to prior approval of the consultant costs overrun, or return \$840,978 for costs in excess of budget.
- (2) We recommend that MSH devise and establish a control to review all terms of its agreements and provide training to its employees responsible for monitoring compliance with the terms of its agreements.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

Detailed Audit Findings

(Continued)

Finding Number 2017-2: Management Review of Bank Reconciliations

Nature of Finding:

Internal control – significant deficiency

Condition:

MSH performed bank reconciliations on a timely basis. However, evidence of review and approval of the bank reconciliations was not documented.

Criteria:

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. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States...”

GAO, *Standards for Internal Control in the Federal Government (GAO-14-704G)*, Principle 16, *Perform Monitoring Activities*, Attribute 16.05, states, in part:

“Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions...”

Cause:

MSH indicated that management reviewed staff’s preparation of the monthly bank reconciliations. However, it does not document evidence that the review was performed.

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

Detailed Audit Findings

(Continued)

Effect:

Not documenting management's review of the bank reconciliation implies that monitoring controls are either not designed or operating effectively, and could result in identified or unidentified errors or irregularities in transactions that may not be resolved in a timely manner.

Questioned Costs:

None.

Recommendation:

We recommend that MSH establish a policy and implement a procedure requiring supervisory review of the monthly bank reconciliations and documenting the review through supervisory sign-off.

May 26, 2017

US Agency for International Development
Office of the Special Inspector General for Afghanistan Reconstruction
2530 Crystal Drive
Arlington, Virginia 22202

Through: [REDACTED]; Mayer Hoffman McCann P.C.

Subject: MSH Management Responses to Draft Report on Financial Audit of SPS Associate Award; Cooperative Agreement No.: 306-A-00-11-00532-00 for the period July 1, 2014 – June 30, 2016

Dear Sirs,

Management Sciences for Health, Inc. (MSH) has received the above-mentioned draft report and hereby submits our formal responses to the two findings contained therein:

1. Management Response to Finding Number: 2017-1: Internal Control – significant deficiency - Compliance. Consultant Costs in excess of the approved budget (Questioned Costs: \$840,978)

Management does not agree with the above-referenced finding or how it is presented and feels that MHM is incorrectly interpreting the regulation regarding 'prior budget approval'. This finding stipulates that MSH was required to obtain USAID approval in order to exceed the Consultant cost line item.

Respectfully, Management would like to clarify that the entirety of the Section A.4 refers to the prior approval requirements of 22 CFR 226.25. The 'additional approval required' for budget revisions is noted in paragraph (2) where it directly refers, more specifically, to 22 CFR 226.25 paragraph (c) (1-8):

Section A.4 of our Cooperative Agreement specifically states:

"(1) Prior Approval Required for Transferring Funds among Cost Categories by More than 10% of Total Estimated Amount.

In accordance with 22 CFR 226.25(f), the Recipient may not transfer funds among cost categories by more than 10% of the total estimated amount of this Award (see Section 1.3 above) without the prior written approval of the Agreement Officer.

Approval is also required for other budget revisions. Even if the budget revision is within the 10% restriction described herein.

(2) In accordance with 22 CFR 226.25(b), the Recipient shall request prior approval from the USAID Agreement Officer for the specific budget revisions described in 22 CFR 226.25(c) (1) through (c) (8)."

Paragraph (1) does stipulate that additional approval is required for budget revisions even if within the 10%. However, paragraph (2) clarifies that these additional approvals are in accordance with those items outlined in 22 CFR 226.25(c) (1-8):

22 CFR 226.25(c)(1-8) states that prior approval is required for the following instances:

"(1) Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval).

(2) Change in a key person specified in the application or award document.

(3) The absence for more than three months, or a 25 percent reduction in time devoted to the project, by the approved project director or principal investigator.

(4) The need for additional Federal funding.

(5) The transfer of amounts budgeted for indirect costs to absorb increases in direct costs, or vice versa.

(6) The inclusion, unless waived in the agreement by USAID, of costs that require prior approval in accordance with OMB Circular A-21, "Cost Principles for Institutions of Higher Education," OMB Circular A-122, "Cost Principles for Non-Profit Organizations," or 45 CFR part 74, Appendix E, "Principles for Determining Costs Applicable to Research and Development under Grants and Contracts with Hospitals," or 48 CFR part 31, "Contract Cost Principles and Procedures," as applicable.

(7) The transfer of funds allotted for training allowances (direct payment to trainees) to other categories of expense.

(8) Unless described in the application and funded in the approved budget of the award, the subaward, transfer or contracting out of any work under an award. This provision does not apply to the purchase of supplies, material, equipment or general support services."

Respectfully, when the two paragraphs are read together, it is clear that paragraph one stipulates the 10% line item flexibility and paragraph two outlines the separate instances in which prior approval is required, regardless of the line item flexibility restriction. As none of the additional items listed in 22 CFR 226.25(c)(1-8) required us to seek approval for overspending on the consultant cost category, we therefore did not need to seek USAID approval.

2. Management Response to Finding Number: 2017-2: Internal Control – significant deficiency. Evidence was not provided that monthly bank reconciliations were reviewed and approved by supervisors (Questioned Costs: \$0)

Management agrees that review and approval of the bank account reconciliations needs to be documented. However, we believe that reconciliations are appropriately reviewed; indeed, the senior accountant in Afghanistan is asked to confirm that he has reviewed bank reconciliations monthly through our monthly attestation form. The monthly attestation form is part of the monthly submission package of our country offices to HQ during the month-end close process and includes a list of questions, of which the first 6 questions are the following:

- The accounting information contained in this monthly Quickbooks file has been reviewed for reasonableness, completeness, and accuracy. This Quickbooks submission includes the consolidated activity of all financial activity, including all regional accounts.
- All bank and other financial accounts under the name of MSH are reflected in a unique Quickbooks account number, and reconciled and reviewed through the month end.
- All tax liability accounts have been reconciled and reviewed, and all taxes have been timely remitted and reported, as per local law.
- All advance accounts have been timely authorized, cleared, reconciled, and reviewed. Project management has been forwarded the month's accounting of advances by project. Delinquent

Advance accounts have been flagged for escalation, and appropriate action is being taken for collection, where appropriate.

- All petty cash and operating cash funds have been counted and reconciled by at least two individuals, and the balance accurately reflected in this Quickbooks submission.

We have attached a download of the online responses recorded with MSH active directory login and time stamp, and filtered for the answers coming from Afghanistan, showing our senior accountant's monthly review. We believe that this is adequate evidence that the review was performed.

If you have any questions or need additional information, please feel free to contact me via email at [REDACTED] and by phone at [REDACTED].

Sincerely,

[REDACTED]

[REDACTED]

Contract Officer
Management Sciences for Health, Inc.

Cc: [REDACTED] MSH Chief Financial Officer & Vice President
[REDACTED], MSH Deputy Chief Financial Officer
[REDACTED], SPS Associate Award Project Director
[REDACTED], MSH Afghanistan Country Representative

MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-A-00-11-00532-00
SPS Program

MSH's Response to Audit Findings

For the Period July 1, 2014 through June 30, 2016

MSH agreed with 1 of the 2 findings identified. MSH disagreed with Finding 2017-1. We have reviewed management's responses and provide the following rebuttals to the finding to which MSH disagreed.

Finding Number 2017-1: Consultant Costs in Excess of the Approved Budget

MSH disagrees with this finding indicating that the interpretation of Section A.4 of the Cooperative Agreement is incorrect. The Company states that it did not seek the prior approval of the USAID Agreement Officer as the excess consultant costs were less than 10% of the estimated total amount of the Cooperative Agreement. Additionally, MSH states that the other instances in which prior approval should be obtained even if the excess costs were less than 10% of the total estimated amount as outlined in 22 CFR 226.25(c) were not applicable.

Consultant costs exceeded the approved budget by \$840,978, or more than 5 times (████%) the approved budget for consultants. Such a significant cost overrun indicates that the manner in which the services under the Cooperative Agreement were being delivered changed significantly, and should have warranted a communication with the USAID Agreement Officer that such a change had occurred and what the financial impact would be. Without such a communication, the USAID Agreement Officer was not afforded an opportunity to review and/or discuss the cost overrun reasons with MSH and to determine whether approval for the significant changes was required. Furthermore, the Cooperative Agreement clearly states "...approval is also required for other budget revisions. Even if the budget revision is within the 10% restriction described herein." As such, our finding remains unchanged.

SIGAR's Mission

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

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

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- Web: www.sigar.mil/fraud
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- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

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