

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 19-52 Financial Audit**

## USAID's Strengthening Pharmaceutical Systems Program in Afghanistan: 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.**



AUGUST  
2019

# 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 in Afghanistan. The agreement's purpose was to improve the pharmaceutical industry's regulatory functions, supply chain management, human resources, pharmaceutical services, and information systems. The initial period of performance was from August 29, 2011, through August 27, 2015, with an estimated cost of \$24,449,936. USAID modified the cooperative agreement 16 times, increasing the total estimated cost to \$37,010,919 and extending the period of performance through December 28, 2017.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$7,790,072 in costs incurred by MSH for the period of July 1, 2016, through December 28, 2017. 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 agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether MSH took 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 audit work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances where Conrad did not comply, in all material respects, with generally accepted U.S. government auditing standards.

August 2019

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

SIGAR 19-52-FA

### WHAT THE AUDIT FOUND

Conrad identified two significant deficiencies and three deficiencies in MSH's internal controls, and four instances of noncompliance with the terms of the cooperative agreement or applicable laws and regulations. For example, the auditors found that payroll costs for four MSH employees did not have their estimated danger pay revised to reflect actual time spent on the program, MSH overcharged the government for overhead expenses, and MSH charged another project's consultant fees to the program.

Because of the internal control deficiencies and instances of noncompliance, Conrad identified \$118,385 in total questioned costs, consisting entirely of ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations. Conrad did not identify any unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Salaries and Wages	\$52,297	\$0	\$52,297
Overhead	\$58,043	\$0	\$58,043
Travel and Transportation	\$7,056	\$0	\$7,056
Consultants	\$989	\$0	\$989
<b>Totals</b>	<b>\$118,385</b>	<b>\$0</b>	<b>\$118,385</b>

Conrad identified four prior audits with 10 findings and recommendations that could be material to the SPFS, and concluded that MSH had taken adequate corrective action on the recommendations.

Conrad issued an unmodified opinion on MSH's SPFS, noting that it presents fairly, in all material respects, the respective 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 of and recover, as appropriate, \$118,385 in questioned costs identified in the report.
2. Advise MSH to address the report's five internal control findings.
3. Advise MSH to address the report's four noncompliance findings.



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

August 21, 2019

The Honorable Mark Green  
Administrator, U.S. Agency for International Development

Mr. Peter Natiello  
USAID Mission Director for Afghanistan

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Management Sciences for Health Inc. (MSH) under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Strengthening Pharmaceutical Systems program in Afghanistan.<sup>1</sup> The agreement's purpose was to improve the pharmaceutical industry's regulatory functions, supply chain management, human resources, pharmaceutical services, and information systems. Conrad's audit covered \$7,790,072 in costs incurred by MSH for the period July 1, 2016, through December 28, 2017. Our contract with Conrad required that the audit be performed in accordance with generally accepted government audit standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$118,385 in total questioned costs identified in the report.**
- 2. Advise MSH to address the report's five internal control findings.**
- 3. Advise MSH to address the report's four noncompliance findings.**

The results of Conrad's audit are discussed in detail in the attached report. We reviewed Conrad's report and related documentation. Our review, as differentiated from an audit in accordance with generally accepted U.S. 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 agreement, laws, and regulations. Conrad is responsible for the attached auditor's report and conclusions expressed in it. However, our review disclosed no instances where Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-152)

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<sup>1</sup> The cooperative agreement number is 306-A-00-11-00532-00.

**Management Sciences for Health, Inc.**

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

For the Period July 1, 2016 through December 28, 2017

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

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

For the Period July 1, 2016 through December 28, 2017

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August 5, 2019

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

Special Inspector General for Afghanistan Reconstruction ("SIGAR")  
Arlington, VA

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you with our final report, which reflects results from the procedures we completed during our audit of Management Sciences for Health, Inc.'s ("MSH") Special Purpose Financial Statement ("SPFS") for costs incurred under Cooperative Agreement No. 306-A-00-11-00532-00, for the period July 1, 2016 through December 28, 2017, to support the Ministry of Public Health.

On May 24, 2019, we provided SIGAR with a draft report reflecting our audit procedures and results. MSH received a copy of the report on July 10, 2019 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 MSH. MSH'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 MSH contract.

Sincerely,

A handwritten signature in blue ink that reads "Conrad LLP".

Sam Perera, CPA, CFE, CITP, CGMA  
Partner

# **MANAGEMENT SCIENCES FOR HEALTH, INC.**

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

For the Period July 1, 2016 through December 28, 2017

## **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 the “Company”) to implement the Strengthening Pharmaceutical Systems (“SPS”) Program to improve Afghanistan’s pharmaceutical regulation 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 designed 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 \$24,449,936. The Cooperative Agreement’s original period of performance spanned August 29, 2011 through August 27, 2015. The Cooperative Agreement was modified 16 times, including an increase in funding to \$37,010,919 and an extension of the period of performance end date to December 28, 2017.

According to MSH’s audited consolidated financial statement for fiscal year ended June 30, 2018, Notes to Consolidated Financial Statements, 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 non-profit organization that develops programs focusing on leadership, health systems management, health service delivery, human resources, and medicines. The Company provides healthcare consulting for 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, MSH provides healthcare policy development, healthcare program planning and implementation, and monitoring and evaluation services.

## **Work Performed**

Conrad LLP (“Conrad” and “we”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of MSH’s Special Purpose Financial Statement (“SPFS”) for \$7,790,072 in costs incurred under the U.S. Agency for International Development (“USAID”) cooperative agreement for the period July 1, 2016 through December 28, 2017.

# MANAGEMENT SCIENCES FOR HEALTH, INC.

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

For the Period July 1, 2016 through December 28, 2017

## 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 award presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain sufficient understanding of MSH’s internal controls related to the 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’s 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 July 1, 2016 through December 28, 2017 under the Cooperative Agreement. Our testing of indirect cost was limited to determining that the indirect cost was calculated using the correct revised negotiated indirect cost rates or provisional indirect cost rates, as applicable for the given fiscal year, as approved by the USAID.

### 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 January 23, 2019 with representatives of MSH, Conrad, SIGAR and USAID participating via conference call.

## **MANAGEMENT SCIENCES FOR HEALTH, INC.**

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

For the Period July 1, 2016 through December 28, 2017

#### Planning

During our planning phase, we performed the following:

- Obtained an understanding of MSH;
- Reviewed the Cooperative Agreement and all modifications;
- Reviewed regulations specific to the Cooperative Agreement requirements;
- Performed a financial reconciliation; and
- Selected samples based on our 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, which means none of the costs are identical in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
  - For accounts that appeared to contain unallowable and restricted items according to the terms of the Cooperative Agreement, 2 CFR, Part 200, and any other applicable regulations, we tested 100% of the transactions.
  - For related party transactions, we tested 100% of the transactions.
  - For high risk cost categories, we sampled transactions greater than \$36,700 not to exceed 30% of the total amount expended for each cost category.
  - For medium risk cost categories, we sampled transactions greater than \$73,400 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 \$73,400 not to exceed 10% of the total amount expended for each cost category and not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

#### Internal Controls Related to the Cooperative Agreement

We reviewed MSH's internal controls related to the Cooperative Agreement. This review was accomplished through interviews and process area walkthroughs with MSH personnel and review of documents evidencing existence of controls.

## **MANAGEMENT SCIENCES FOR HEALTH, INC.**

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

For the Period July 1, 2016 through December 28, 2017

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

### Corrective Action on Prior Findings and Recommendations

We requested from MSH, as well as conducted a search online on various governmental websites including SIGAR, USAID and other oversight organizations, such as the Government Accountability Office ("GAO"), for all reports from previous engagements. This was in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. Our evaluation procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. See the Review of Prior Findings and Recommendations subsection of this summary for analysis.

### Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

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

### Exit Conference

An exit conference was held on May 14, 2019 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.

## **Summary of Results**

Our audit of the costs incurred by MSH under the Cooperative Agreement with USAID identified the following matters. Findings are classified as either internal control or compliance or a combination of internal control and compliance

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

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

For the Period July 1, 2016 through December 28, 2017

**Auditor’s Opinion on the SPFS**

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We identified \$118,385 in total questioned costs because they were either ineligible or unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the audited task order 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.

The following summary is intended to present an overview of the audit results and is not intended to be a representation of the audit’s results in their entirety.

**Summary of Findings and Questioned Costs**

<b>Finding Number</b>	<b>Nature of Finding</b>	<b>Matter</b>	<b>Ineligible Costs</b>	<b>Unsupported Costs</b>	<b>Cumulative Questioned Cost</b>
2019-01	Non-Compliance; Internal Control – Significant Deficiency	Danger pay and travel cost inaccurately allocated to the program	\$59,353	N/A	\$59,353
2019-02	Non-Compliance; Internal Control – Significant Deficiency	Indirect costs charged for FY 2018 were not approved by USAID	\$57,521	N/A	\$116,874
2019-03	Non-Compliance; Internal Control – Deficiency	Consultant costs not related to the program erroneously charged to the program	\$1,511	N/A	\$118,385
2019-04	Internal Control – Deficiency	Subcontractor procurement documentation not completed per MSH procurement policy	N/A	N/A	\$118,385

## MANAGEMENT SCIENCES FOR HEALTH, INC.

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

For the Period July 1, 2016 through December 28, 2017

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2019-05	Non-Compliance; Internal Control – Deficiency	Closeout procedures not followed per terms of the Cooperative Agreement	N/A	N/A	\$118,385
<b>Total Questioned Costs</b>			<b>\$118,385</b>	<b>\$0</b>	<b>\$118,385</b>

### **Internal Control Findings**

Our audit discovered five internal control findings, consisting of two significant deficiencies and three deficiencies. See Independent Auditor's Report on Internal Control on page 16. The complete management responses from MSH to each of the internal control findings can be found in Appendix A to this report.

### **Compliance Findings**

The results of our tests disclosed four instances of noncompliance related to this audit. See the Independent Auditor's Report on Compliance on page 19. The complete management responses from MSH to each of the compliance findings can be found in Appendix A to this report.

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*. Evidence of such items was not identified by our testing.

### **Review of Prior Findings and Recommendations**

Based on our request and search of prior engagements pertinent to MSH's activities under the Cooperative Agreement, we had identified the following four prior engagements:

- 1) SIGAR Financial Audit 13-4 - USAID's Technical Support to the Central and Provincial Ministry of Public Health Project: Audit of Costs Incurred by Management Sciences for Health, Inc.;
- 2) SIGAR Financial Audit 17-50 - USAID's Strengthening Pharmaceutical Systems Program: Audit of Costs Incurred by Management Sciences for Health Inc.;
- 3) Independent Auditor's Reports on the Consolidated Financial Statements, Supplementary Information, Supplemental Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance for year ended June 30, 2017; and

## **MANAGEMENT SCIENCES FOR HEALTH, INC.**

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

For the Period July 1, 2016 through December 28, 2017

- 4) Independent Auditor's Reports on the Consolidated Financial Statements, Supplementary Information, Supplemental Schedule of Expenditures of Federal Awards and Reports Required by *Government Auditing Standards* and the Uniform Guidance for year ended June 30, 2018.

Based on our review of these four reports, we identified 11 findings that could have a material effect on the SPFS or other financial data significant to the audit objectives. We have reviewed the corrective actions taken to address these findings and recommendations. Our review procedures include a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. MSH has taken adequate corrective action on all 11 recommendations. See Status of Prior Audit Findings on page 30 for a detailed description of the prior findings and recommendations.

### **Summary of Management Sciences for Health Inc.'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.

- 2019-01: MSH agrees that danger pay and travel cost allocation for employees was not revised to reflect the actual amount of time spent on the program. Further, that MSH has processed a credit to USAID for the questioned amount.
- 2019-02: MSH disagrees with the finding stating that based on their interpretation of the cooperative agreement terms, they could use their internal rates until the fiscal year is closed and the approved rates from USAID are available. Additionally, that this has been MSH's practice.
- 2019-03: MSH agrees that the consultant cost was charged to the program in error. Further, that MSH has processed a credit to USAID for the questioned amount.
- 2019-04: MSH agrees that subcontractor sole source justification was not signed by the preparer per MSH's procurement policy.
- 2019-05: MSH agrees that the closeout plan was submitted one day late and MSH did not obtain written approval of the plan.



## INDEPENDENT AUDITORS' REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

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

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

### **Report on the Special Purpose Financial Statement**

We have audited the accompanying Special Purpose Financial Statement of Management Sciences for Health, Inc. ("MSH") and the related notes to the Special Purpose Financial Statement, with respect to Cooperative Agreement No. 306-A-00-11-00532-00, for the period July 1, 2016 through December 28, 2017, to support the Ministry of Public Health.

### **Management's Responsibility for the Special Purpose Financial Statement**

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the requirements provided by the Office of the Special Inspector General of Afghanistan Reconstruction ("SIGAR"). Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Special Purpose Financial Statement that is free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the MSH's preparation and fair presentation of the Special Purpose Financial Statement in order to design audit procedures that are appropriate

(Continued)

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in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MSH's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

## **Opinion**

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received, and costs incurred by MSH under the Cooperative Agreement, for the period July 1, 2016 through December 28, 2017, in accordance with the basis of accounting described in Note 2.

## **Basis of Presentation**

We draw attention to Note 2 to the Special Purpose Financial Statement, which describes the basis of presentation. The Special Purpose Financial Statement was prepared by MSH in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of Cooperative Agreement No. 306-A-00-11-00532-00, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Cooperative Agreement referred to above. Our opinion is not modified with respect to this matter.

## **Restriction on Use**

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 29, 2019 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 Cooperative Agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSH's internal control over financial reporting and compliance.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, flowing style.

Lake Forest, California  
July 29, 2019

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

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

Special Purpose Financial Statement

For the Period July 1, 2016 through December 28, 2017

	(Life of Program)	(July 2016 to Dec 2017)	Questioned Costs			
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
306-A-00-11-00532-00	\$ 37,010,919	\$ 7,790,072	\$ -	\$ -	\$ -	(3)
Total Revenues	<u>37,010,919</u>	<u>7,790,072</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Salaries & Wages	12,873,234	3,391,191	52,297	-	52,297	(A)
Overhead	7,191,971	2,210,293	58,043	-	58,043	(4), (B)
Travel & Transportation	2,588,116	573,024	7,056	-	7,056	(C)
Allowances	672,773	298,009	-	-	-	
Subcontracts	1,421,438	238,717	-	-	-	
Training	835,708	123,939	-	-	-	
Equipment	61,111	-	-	-	-	
Other Direct Costs	8,662,002	682,314	-	-	-	
Consultants	<u>2,704,566</u>	<u>272,585</u>	<u>989</u>	<u>-</u>	<u>989</u>	(D)
Total Costs Incurred	<u>37,010,919</u>	<u>7,790,072</u>	<u>\$ 118,385</u>	<u>\$ -</u>	<u>\$ 118,385</u>	(5)
Outstanding Fund Balance	<u>\$ -</u>	<u>\$ -</u>				

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

# MANAGEMENT SCIENCES FOR HEALTH, INC.

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

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

## (1) **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”) 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 16 times for reasons such as modifying agreement provisions, increasing funding obligation to \$37,010,919, increasing the total award amount to \$37,010,919, as well as extending the period of performance to December 28, 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 Cooperative Agreement for the period July 1, 2016 through December 28, 2017, the audit period. 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. To provide better context and meaningful financial data, the total budget for the life of the SPS program is presented rather than just the audit period. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) and is specific to the aforementioned Cooperative Agreement.

### Basis of Accounting

Expenditures reported on the SPFS are reported on accrual basis of accounting and presents amounts as presented under the terms of the Agreement. Such expenditures are recognized following the cost principles contained in 2 CFR 200 Subpart E, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

### 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.

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<sup>1</sup> 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  
Strengthening Pharmaceutical Systems Program

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

**(3) Revenue**

As of December 28, 2017, MSH has reported \$7,790,072 in revenue for the period July 1, 2016 through December 28, 2017.

**(4) Overhead**

On June 22, 2018, USAID approved MSH's financial negotiated indirect cost rates ("NICRA") through June 30, 2017, until amended. Subsequent to its Uniform Guidance audit (2 CFR 200) for MSH's fiscal year that ended on June 30, 2018, during which the actual NICRA rates were determined, MSH applied the actual rates of 126.34% and 70.52%, instead of the provisional rate; based on its submission of NICRA approval application letter to USAID. This is consistent with the amounts reported on the final SF 425 (reference Note 5). Further details of the final approved NICRA rates for fiscal year 2017 and provisional rates for fiscal year 2018 are presented in the table below.

Type	Effective Period		Indirect Cost Rate	
	From	Through	Employee Overhead (a)	Consultant & Foreign Professional Overhead (b)
Final	7/1/14	6/30/15	80.96%	37.82%
Final	7/1/15	6/30/16	86.57%	42.81%
Final	7/1/16	6/30/17	100.34%	52.78%
Provisional	7/1/17	Until amended	117.97%	65.63%

The basis of allocation for the indirect costs is as follows:

- (a) Employee direct labor plus accrued holiday, vacation and sick pay, excluding foreign national (field) professional staff paid in local currency.
- (b) Consultant fees, plus direct labor including accrued holiday, sick and vacation pay for foreign national (field) professional staff.

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<sup>1</sup> 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  
Strengthening Pharmaceutical Systems Program

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

### (5) **Total Overhead (NICRA) Costs Incurred**

As presented in Note 4 above, MSH had provisional overhead rate from July 1, 2017 until amended. MSH submitted its negotiated indirect cost rate approval request to USAID subsequent to December 2017. Although the approval is still pending, MSH applied the actual Employee Overhead rate of 126.34% and the Consultant & Foreign Professional Overhead 70.52% in accordance with its Uniform Guidance audit. Accordingly, Forms SF 425 were submitted for the periods ending June 30, 2018 and September 30, 2018, to reflect additional billing to USAID totaling \$441,703 to true up final expenses, and the total Overhead based on the actual rate. The SF 425 for September 30, 2018, submitted to USAID, shows total incurred cost of \$36,479,654.

### (6) **Subsequent Events**

Management has performed an analysis of the activities and transactions subsequent to the July 1, 2016 through December 28, 2017 period covered by the SPFS. Management has performed their analysis through July 29, 2019.

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<sup>1</sup> 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 Strengthening Pharmaceutical Systems Program

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

For the Period July 1, 2016 through December 28, 2017

**(A) Salaries & Wages**

MSH reported salaries and wages in the amount of \$3,391,191 for the period July 1, 2016 through December 28, 2017. During our audit of these costs, we noted that MSH overestimated the amount of time four MSH employees spent on the project and had not adjusted their salaries and wages downward to actual time spent on the program. This resulted in ineligible costs of \$52,297. See Finding No. 2019-01 in the Schedule of Findings and Questioned Costs section of this report.

**(B) Overhead**

MSH reported overhead costs in the amount of \$2,210,293 for the period July 1, 2016 through December 28, 2017. During our audit of these costs, we determined that MSH claimed indirect costs based on a rate that had not yet been approved by USAID. This resulted in questioned costs in the amount of \$57,521.

Additionally, as a result of the finding relating to consultants, in **Note D** below, the associated overhead costs overcharged were \$522.

Based on the aforementioned, the total ineligible overhead costs were \$58,043. See Finding Nos. 2019-02 and 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

**(C) Travel and Transportation**

MSH reported travel and transportation costs in the amount of \$573,024 for the period July 1, 2016 through December 28, 2017. During our audit of these costs, we noted two of the MSH employees travel expenditure was overallocated. This resulted in ineligible costs of \$7,056. See Finding No. 2019-01 in the Schedule of Findings and Questioned Costs section of this report.

**(D) Consultants**

MSH reported consultant costs in the amount of \$272,585 for the period July 1, 2016 through December 28, 2017. During our audit of consultants, we noted that one consultant's fee was charged to the incorrect program, resulting in an overcharge of \$989. This resulted in ineligible costs of \$989. See Finding No. 2019-03 in the Schedule of Findings and Questioned Costs section of this report.

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<sup>2</sup> The Notes to Questioned Costs presented on the Special Purpose Financial Statement were prepared by the auditor for informational purposes only and as such are not part of the audited Special Purpose Financial Statement.



## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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

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

We have audited, 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 with the United States Agency for International Development for the period July 1, 2016 through December 28, 2017, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated July 29, 2019. 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

MSH's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the cooperative agreement; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 2 to the Special Purpose Financial Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

(Continued)

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In planning and performing our audit of the Special Purpose Financial Statement of MSH for the period July 1, 2016 through December 28, 2017, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the Special Purpose Financial Statement and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and deficiencies.

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. We identified three findings reported in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-03, 2019-04 and 2019-05 which are considered to be internal control deficiencies.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify two internal control deficiencies as described in the accompanying Schedule of Findings and Questioned Costs as items 2019-01 and 2019-02, which 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 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.

(Continued)

## **Restriction on Use**

This report is intended for the information of Management Sciences for Health, Inc., 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. 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  
July 29, 2019



## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

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

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

We have audited, 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 with the United States Agency for International Development for the period July 1, 2016 through December 28, 2017, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated July 29, 2019. 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.

### Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement and corresponding modifications are the responsibility of the management of MSH.

### 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 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. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed four instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-01, 2019-02, 2019-03, and 2019-05.

(Continued)

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## **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 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., 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.

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

Lake Forest, California  
July 29, 2019

## MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-0532-00  
Strengthening Pharmaceutical Systems Program

For the Period July 1, 2016 through December 28, 2017

### Schedule of Findings and Questioned Costs

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

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

**Condition:** Three months of payroll were used to test 26 US based employees or 54% of the population to ensure payroll cost were properly supported, allowable, reasonable, and allocable. As a result, four MSH employees tested did not have their estimated danger pay revised to reflect actual time spent on the program.

- For one employee, 100% of his salary (post differential, danger pay, separate maintenance allowance (SMA), and lodging) had been recorded to the SPS Program, however evidence of actual allocation of time spent on the SPS program demonstrated was only 60%. Therefore only 60% of these costs should have been charged to the SPS program. This resulted in ineligible costs for salary in the amount of \$50,769 and travel and transportation in the amount of \$6,976.
- For one employee, danger pay was estimated to be 85% but had not been reconciled to actual allocation of 56% that resulted in ineligible costs of \$930.
- For one employee, danger pay was estimated to be 100% but had not been reconciled to actual of 95% that resulted in ineligible costs of \$113.
- For one employee, a payroll allocation reconciliation resulted in ineligible costs of \$485 in post differential, danger pay, and SMA as well as \$80 in travel and transportation.

This resulted in a total adjustment of payroll allowance costs of \$52,297 and travel costs of \$7,056.

**Criteria:** 2 CFR 200.405, Allocable Costs, states the following:

“(a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- (1) Is incurred specifically for the Federal award;
- (2) Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods...”

## MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

Schedule of Findings and Questioned Costs

(Continued)

**Cause:** MSH Management experienced staff transitions and did not have an effective process in place to ensure a proper transfer of allowance information between business units. The replacement staff was unaware that the original staff that booked the allowances based on an estimate and not the actual time spent on the SPS project. The estimated allocations were not properly trued up during the transition by the new business unit handling these adjustments due to miscommunication between the two business units and inadequate training.

**Effect:** Inaccurate salary and travel expenses resulted in ineligible costs claimed. Ineligible cost items claimed resulted in excessive costs being charged to the Government and a potential misuse of funds.

**Questioned Costs:** The payroll allowance costs associated with all these employees was \$52,297 and travel costs in the amount of \$7,056. This resulted in a total ineligible cost of \$59,353.

### Recommendation:

- (1) We recommend that MSH return the \$59,353 of ineligible costs to USAID since the program has closed-out.
- (2) We recommend MSH develop procedures and train transitioning personnel to ensure they are fully aware how to allocate allowances between projects based on actual time spent, rather than estimated time.
- (3) We recommend that MSH develop and implement an internal control process that ensures that when costs are allocated based on estimates, they are tracked and trued up when the actual time spent is available.

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

Schedule of Findings and Questioned Costs

(Continued)

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

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

**Condition:** During our review of overhead costs, we calculated that MSH claimed 126.34% for employee overhead and 70.52% for consultant & foreign professional overhead, which were higher than the approved provisional Negotiated Indirect Cost Rate Agreement (“NICRA”) rates of 117.97% and 65.63%, respectively.

On December 11, 2018, MSH submitted an application to modify their NICRA rate based on the results of their audited consolidated financial statements under Uniform Guidance for the year ended June 30, 2018 but have not yet been approved by USAID. MSH stated that they billed USAID for overhead expenses based on the results of the audit that reflected their actual overhead rates instead of the approved provisional rates. Since the program was completed in December 2017, MSH wanted to submit the final SF425 by September 30, 2018. However, MSH acknowledged that they had not received the approval letter from USAID to use the new overhead rates from their application submitted in December 2018.

**Criteria:** Cooperative Agreement clause, A.10 Direct Costs, states the following:

“Pursuant to the Standard Provision set forth in the Leader Award entitled "Negotiated Indirect Cost Rates - Provisional (Non-profits)," an indirect cost rate or rates shall be established for each of the Recipient's accounting periods which apply to this Award. Pending establishment of final or revised provisional indirect cost rates, allowable indirect costs shall be reimbursed on the basis of the following negotiated provisional rate(s) and the appropriate base(s): ...”

Additionally, the NICRA dated June 22, 2018 has the following rates:

<u>Type</u>	<u>Effective Period</u>		<u>Indirect Cost Rate</u>	
	<u>From</u>	<u>Through</u>	<u>Employee Overhead</u> (1)	<u>Consultant &amp; Foreign Professional Overhead</u> (2)
Provisional	07-01-17	Until Amended	117.97%	65.63%

Note: Base of Application

- (1) Employee direct labor plus accrued holiday, vacation and sick pay, excluding foreign national (field) professional staff paid in local currency.

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

Schedule of Findings and Questioned Costs

(Continued)

- (2) Consultant fees, plus direct labor including accrued holiday, sick and vacation pay for foreign national (field) professional staff.

**Cause:** MSH lacked effective controls to ensure that it bills the government using USAID approved provisional indirect cost rates for its overhead expenses.

**Effect:** MSH's excessive overhead charges diverted federal funds from other programmatic purposes and cast doubt on MSH.

**Questioned Costs:** The total ineligible cost associated with indirect costs was \$57,521.

**Recommendation:**

- 1) We recommend that MSH return \$57,521 to USAID of ineligible costs or provide evidence that the amount was properly charged.
- 2) We recommend MSH require supervisory review over indirect costs to ensure that only approved indirect costs are charged.

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

Schedule of Findings and Questioned Costs

(Continued)

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

**Nature of Finding:** Non-Compliance and Internal Control Deficiency

**Condition:** Of the 138 consultant population, a sample of 29 transactions relating to multiple consultants were selected for testing. Of the 29 samples, we noted 1 instance where a consultant's fee was charged to the SPS program, but related to another project. This incorrect charge resulted in an \$989 overcharge to the SPS program.

**Criteria:** 2 CFR 200.403, Factors Affecting Allowability of Costs, states the following:

- “(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.
- (b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- (c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity.
- (d) Be accorded consistent treatment. A cost may not be assigned to a Federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the Federal award as an indirect cost.
- (e) Be determined in accordance with generally accepted accounting principles (GAAP), except, for state and local governments and Indian tribes only, as otherwise provided for in this part.
- (f) Not be included as a cost or used to meet cost sharing or matching requirements of any other federally-financed program in either the current or a prior period. See also § 200.306 Cost sharing or matching paragraph (b).
- (g) Be adequately documented. See also §§ 200.300 Statutory and national policy requirements through 200.309 Period of performance of this part.”

**Cause:** MSH did not have adequate management oversight and review over the consultant payroll cost process to ensure that consultant costs are properly coded to the correct programs.

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

Schedule of Findings and Questioned Costs

(Continued)

**Effect:** Consultant charges and related overhead expense resulted in ineligible costs claimed to the Cooperative Agreement. This caused federal funds being diverted from other programmatic purposes and casts doubt on MSH.

**Questioned Costs:** The ineligible costs associated with this transaction were \$989 for consultants and \$522 in overhead, resulting in total questioned costs of \$1,511.

**Recommendation:**

- 1) We recommend that MSH return \$1,511 of ineligible costs to USAID.
- 2) We recommend that MSH update its internal controls to incorporate proper management oversight and establish policies and procedures to require supervisory review procedures to ensure costs are properly coded to the correct program.

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

Schedule of Findings and Questioned Costs

(Continued)

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

**Nature of Finding:** Internal Control – Deficiency

**Condition:** During our testing of the procurement process for the only major subcontractor, the subcontractor’s sole source justification form was completed with the required information, but was not signed by the preparer, pursuant to MSH procurement policy.

**Criteria:** MSH Policy, Obtaining Outside Goods and Services (PGS-POL-001-AG), states the following:

“Every award for outside goods or services exceeding \$3,000 (or local currency equivalent) must be supported by a written justification for award sufficient to show the award was made on the basis of sound business judgment with the objective of obtaining the best value available. ...”

The MSH Justification For Other Than Full And Open Competition Sole Source For Technical Services form has provision for preparer’s signature and date. See below.

REQUESTED BY: DEPARTMENT: SPS/Afghanistan	CODE:
PREPARED BY : DATE	: 11/03/2015
<i>I hereby certify that, to the best of my knowledge, the above justification is accurate and complete and request that a sole source be approved for the procurement of the above requested items or services.</i>	
PRINTED NAME & TITLE:	DATE:
SIGNATURE: _____	_____

Additionally, 2 CFR 200.403, Factors Affecting Allowability of Costs, states the following:

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

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

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

Schedule of Findings and Questioned Costs

(Continued)

**Cause:** This was due to inadequate management oversight, thereby increasing the likelihood of human error. In addition, the MSH employee who prepared the form was unfamiliar with the process and was not sufficiently trained on how to complete the sole source justification form per the company's procurement policy.

**Effect:** Failing to obtain a signature documenting the preparer of the document, creates doubt of the authenticity of the document and consequently of the procurement process completed for the subcontractor.

**Questioned Costs:** None

**Recommendation:**

- 1) We recommend that MSH establish adequate internal controls to ensure supervisory review of supporting documentation to comply with the company's procurement policy.
- 2) We recommend that MSH provide training to employees responsible for procurement to strictly adhere to its procurement policy.

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

Schedule of Findings and Questioned Costs

(Continued)

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

**Nature of Finding:** Non-Compliance and internal control deficiency

**Condition:** During our testing of closeout procedures, we noted the following non-compliances:

- The closeout plan was submitted 1 day past the due date per the terms of the Cooperative Agreement.
- MSH failed to obtain written approval of closeout plan, per the terms of the Cooperative Agreement.

**Criteria:** Cooperative Agreement “Closeout Plan” clause states the following:

“30 days prior to the completion date of the Cooperative Agreement, the Recipient shall submit a Closeout Plan to the Agreement Officer and AOTR. ... The closeout plan shall be approved in writing by the Agreement Officer.”

**Cause:** MSH submitted the Closeout Plan a day late due to miscalculation of the 30 days prior the end date of the Cooperative Agreement. With regard to the written approval, MSH believed that after receiving various approvals for components of the Closeout Plan, such as approval for the End of Program Activities and the Property Disposition Plan that the Closeout Plan approval had been implied and did not follow up with AOTR to obtain approval.

**Effect:** Without documentation to support that the Closeout Plan was approved; it cannot be explicitly determined whether or not USAID approved or requested revisions to the Closeout Plan submitted.

**Questioned Costs:** None

**Recommendation:**

We recommend that MSH create a policy and procedures and provide adequate training of staff to ensure that closeout requirements are met per the terms of each agreement for any future programs.

## MANAGEMENT SCIENCES FOR HEALTH, INC.

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

For the Period July 1, 2016 through December 28, 2017

### Status of Prior Audit Findings

We requested from MSH, as well as conducted a search online on various governmental websites, including SIGAR, USAID, and other applicable Federal agencies, for any prior engagements including audits, reviews, and evaluations pertinent to MSH's activities. We identified four prior engagement below that had 11 findings that could have a material effect on the SPFS.

We reviewed the corrective actions taken to address these 11 findings and recommendations. Our review procedures included a follow-up discussion with management of the corrective action taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of the similar areas surrounding these issues during our current audit. The findings and status of corrective actions are listed below:

#### **Report: SIGAR Financial Audit 13-4 "USAID's Technical Support to the Central and Provincial Ministry of Public Health Project: Audit of Costs Incurred by Management Sciences for Health"**

**2013-01:** Entertainment Expenses Included as Other Direct Costs

**2013-02:** Missing Source Documentation for Salaries and Wages

**2013-03:** Lack of Evidence of Disposal of Equipment Required by the Cooperative Agreement

**Status:** SIGAR engaged another audit firm to conduct an audit (audit 17-50) on costs MSH incurred supporting another project. These three issues were identified as prior audit findings and recommendations in that report. The audit firm concluded, based on their testing that the findings were not repeated, and corrective actions had been implemented. In addition, during our testing under this audit, we did not note any issues related to these areas. These issues were not repeated.

#### **Report: SIGAR Financial Audit 17-50-FA "USAID's Strengthening Pharmaceutical Systems Program: Audit of Costs Incurred by Management Sciences for Health Inc."**

**2017-02:** MSH did not provide evidence of review and approval of bank reconciliations as required by 2 CFR 200.303 *Internal Controls* and GAO-14-704G, Principal 16, *Perform Monitoring Activities*, Attribute 16.05.

**Status:** During our on-site follow-up, MSH management stated that based on their new process, the review and approval of bank reconciliations were documented through a monthly attestation form. We reviewed and confirmed the implementation of the monthly attestation form. In addition, during our review of bank reconciliations, we did not identify any deficiencies relating to documentation. This issue was not repeated.

**Report: Independent Auditor's Report on the Consolidating Financial Statements, Supplementary Information, Supplemental Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and the Uniform Guidance for year ended June 30, 2017 conducted by certified public accountants engaged by MSH**

**2017-01:** MSH's process for granting access to information technology for former and current employees inappropriately increased the risk for misstatements and erroneous reporting in the company's accounting and general ledger system. MSH had a lack of internal controls required by 2 CFR 200 – Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards Part 202.303 *Internal Controls*.

**Status:** During our on-site follow-up with MSH management we noted that MSH conducts monthly reviews of all system users to ensure that only authorized personnel have access and that no one outside the Information Technology ("IT") Department has super user rights. Business process owners were provided a copy of the review and will determine what corrective actions should be made. In addition, the IT director confirmed that the corrective actions are in place and that spot checks are performed on a regular basis. Based on our review it appears that adequate corrective action has been taken. We did not identify any issues related to internal control weaknesses in a similar area. This issue was not repeated.

**2017-02:** MSH did not provide proper equipment records as required by Part 200.313

**Status:** During our on-site follow-up with MSH management, MSH stated that the asset tracker was completed with the required information and that all required assets (equipment) were tracked. We reviewed the tracker used for the SPS program and noted that all required information was incorporated in the tracker. In addition, during our closeout testing of equipment, we did not identify any equipment tracking issues on this program. This issue was not repeated.

**2017-03:** MSH charged \$50,000 for potential unallowable costs for payment to a vendor catering lunch to employees. MSH did not comply with unallowable cost requirements identified within the terms and conditions of the grant award and Part 200.403, *Factors Affecting Allowability of Costs*.

**Status:** During our on-site follow-up with MSH management, MSH stated that they agreed with the finding and provided support that the donor was credited for the unallowable cost. Further, they have strengthened their cost review process. During our onsite visit, we reviewed the policies and procedures surrounding controls put in place to strengthen the review process. In addition, during our transaction testing of the various cost categories, we did not identify any instances where unallowed costs were claimed. This issue was not repeated.

**2017-04:** MSH charged consultant expenses to the program outside the consultant's contract period and did not provide supporting documentation that the consultant's contract was extended.

**Status:** During our on-site follow-up with MSH management, MSH stated that they ensured that a valid consultant agreement or extension to an existing consultant agreement exists prior to approving payments. During our onsite visit, we reviewed consultant agreements to ensure valid agreements were in place and noted no exceptions. In addition, during our testing of consultants, we did not identify any deficiencies related to payments made outside the consultant's contract on this program. This issue was not repeated.

**Report: Independent Auditor's Report on the Consolidating Financial Statements, Supplementary Information, Supplemental Schedule of Expenditures of Federal Awards and Reports Required by Government Auditing Standards and the Uniform Guidance for year ended June 30, 2018 conducted by certified public accountants engaged by MSH**

**2018-01:** MSH did not provide proper equipment records as required by Part 200.313

**Status:** During our on-site follow-up with MSH management, MSH stated that the items in this finding were not assets as the costs were less than \$5,000. However, MSH maintains an asset tracker with the required information to track all required assets (equipment). We reviewed the tracker used for the SPS program and noted that all required information was incorporated in the tracker. In addition, during our closeout testing of equipment, we did not identify any equipment tracking issues for this program. This issue was not repeated.

**2018-02:** MSH field office did not comply with the requirement of full and open competition occurring during the procurement process as required by Part 200.319.

**Status:** During our on-site follow-up with MSH management, MSH stated that they had taken corrective action to reinforce full and open competition occurring during the procurement process. During our onsite visit, we reviewed the policies and procedures surrounding these issues to ensure adequate procedures were in place. In addition, during our testing of procurements under various cost categories, we did not identify any instances where full and open competition was not taking place during the procurement process, in applicable situations. This issue was not repeated.

**2018-03:** Fraudulent activities reported in MSH Liberia, Malawi and Congo field offices.

**Status:** During our on-site follow-up with MSH management, MSH stated that MSH implemented a robust set of internal controls as part of its compliance program. Controls included a code of conduct with mandatory annual training, an independent Internal Audit department, a formal Audit Committee, a whistle blower hot line, and management compliance certifications and risk assessments. MSH Human Resources is currently in the process of modifying employment agreement templates for each country which will have a provision prohibiting (as allowed by local country law) dual employment, without proper management approval. MSH will also incorporate this provision into its local policy manual. During our onsite visit, we reviewed the policies and procedures surrounding these issues to ensure adequate procedures were in place. We reviewed MSH's code of conduct. We also confirmed the existence of an Audit Committee, a fraud hotline, and the internal controls put in place to strengthen MSH's antifraud program. The SPS program we are auditing had no overlap with the processes followed in the Liberia, Malawi and Congo field offices. In addition, during our inquiries and testing of procurement of the various cost categories, we did not identify any instances of fraud. This issue was not repeated.

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

For the Period July 1, 2016 through December 28, 2017

**Management Sciences for Health Response to Findings**

Included on the following pages is MSH's response received to the findings identified in this report.



July 17, 2019

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

**RE: MSH Management Response to Audit Findings Reported in Conjunction with the Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-A-00-11-00532-00 Strengthening Pharmaceutical Systems Program**

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

MSH Management Response

MSH agrees with this finding. MSH has processed a credit to the donor for the appropriate amount. Upon receipt of instructions from the USAID agreement officer, MSH will refund this amount or apply this to the outstanding liability. The allowance allocation internal procedures have been reinforced with the personnel responsible for performing the cost allocation on a regular basis.

[REDACTED]

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

MSH Management Response

MSH applies provisional approved rates from USAID until the actual annual rates are available for the fiscal year. The interpretation of the clause "Pending the establishment of final or revised indirect cost rates..." is that the rates are available when the fiscal year is closed. MSH has consistently applied this practice each fiscal year end. MSH has received confirmation of the provisional rates which are the fiscal year end indirect rates charged to the donor. Thus, the amounts invoiced and drawn are correct.

[REDACTED]



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

MSH Management Response

MSH agrees with this finding. This was an isolated error. MSH has several layers of controls to reduce the likelihood of errors. A credit has been issued to the donor. Upon receipt of instructions from the USAID agreement officer, MSH will refund this amount or apply this to the outstanding liability.

[REDACTED]

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

MSH Management Response

MSH agrees with this finding. The process for the sole source justification was followed, however; the document was not signed. This is an isolated incident. MSH regularly reinforces its policies and procedures.

[REDACTED]

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

MSH Management Response

MSH agrees with this finding. The closeout procedures were followed, however; the closeout plan was submitted one day late and MSH did not obtain written approval of the plan. MSH executed the closeout procedures according to the plan submitted.

[REDACTED]

**MANAGEMENT SCIENCES FOR HEALTH, INC.**

Financial Audit of Costs Incurred under  
Cooperative Agreement No. 306-A-00-11-00532-00  
Strengthening Pharmaceutical Systems Program

For the Period July 1, 2016 through December 28, 2017

**Auditor's Rebuttal to Management Sciences for Health Response to the Audit Report**

Management Sciences for Health (MSH) agreed with 4 of the findings and disagreed or partially disagreed with 1 finding. We have reviewed management's responses and provided the following rebuttal below.

**2019-02:**

MSH Response: MSH applies provisional approved rates from USAID until the actual annual rates are available for the fiscal year. MSH interpretation of the clause "Pending the establishment of final or revised indirect cost rates..." is that the rates are available when the fiscal year is closed. MSH has consistently applied this practice each fiscal year end. MSH subsequent to the audit received approval of the provisional rates submitted. As such the amounts invoiced and drawn are correct.

Auditor Rebuttal: MSH did not include the entire clause from the cooperative agreement which states, "Pending establishment of final or revised provisional indirect cost rates, **allowable indirect costs shall be reimbursed on the basis of the following negotiated provisional rate(s)** and ...". This means that until additional rates are approved by USAID, MSH should be claiming the rates stipulated in the cooperative agreement. The finding, recommendation, and questioned cost amount 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.

## Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site ([www.sigar.mil](http://www.sigar.mil)). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

## To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: [www.sigar.mil/fraud](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone Afghanistan: +93 (0) 700-10-7300
- 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

Public Affairs Officer

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