

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 19-56 Financial Audit

USAID's Support of the Grain Research and Innovation Project in Afghanistan: Audit of Costs Incurred by Michigan State University

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 March 11, 2013, the U.S. Agency for International Development (USAID) awarded Michigan State University (MSU) a 5-year, \$24.9 million cooperative agreement in support of MSU's Global Center for Food System Innovation (GCFSI). USAID modified the cooperative agreement nine times, increasing the total funding to \$34.5 million, and extending the period of performance to September 30, 2022. The focus of this audit is the ninth modification that set aside \$19.5 million for the Grain Research and Innovation (GRAIN) project. GRAIN's objective is to help build Afghan researchers' abilities to conduct and manage research on wheat and cereals.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$1,370,438 charged to the cooperative agreement for the GRAIN project, from March 13, 2017, through March 12, 2018. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in MSU'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 MSU has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of MSU'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, 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 Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards.

August 2019

USAID's Support of the Grain Research and Innovation Project in Afghanistan: Audit of Costs Incurred by Michigan State University

SIGAR 19-56-FA

WHAT THE AUDIT FOUND

Conrad identified two significant deficiencies in MSU's internal controls, and two instances of noncompliance with the terms of the cooperative agreement, applicable laws, and regulations. For example, MSU could not provide evidence that it performed price reasonableness checks for two procurements; these checks are designed to ensure that MSU did not overpay for goods and services.

As a result of these internal control deficiencies and instances of noncompliance, Conrad identified \$18,661 in questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval in accordance with the cooperative agreement. Conrad did not identify any ineligible costs—costs prohibited by the cooperative agreement and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Other/In-country	\$0	\$14,810	\$14,810
Facilities and Administrative	\$0	\$3,851	\$3,851
Total Questioned Costs	\$0	\$18,661	\$18,661

Conrad did not identify any prior engagements that could have a material effect on MSU's SPFS.

Conrad issued an unmodified opinion on MSU's SPFS, noting that it presents fairly, in all material respects, the 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, \$18,661 in questioned costs identified in the report.**
- 2. Advise MSU to address the report's two internal control findings.**
- 3. Advise MSU to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

August 30, 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 Michigan State University (MSU) under a U.S. Agency for International Development (USAID) cooperative agreement to support the university's Global Center for Food System Innovation (GCFSI) project. One component of the GCFSI project, added through a modification to the cooperative agreement, included funding for the Grain Research and Innovation (GRAIN) project; our audit reviewed a portion of the \$19.5 million for the GRAIN project.¹ GRAIN's objective is to help build Afghan researchers' abilities to conduct and manage research on wheat and cereals.

Conrad's audit covered \$1,370,438 charged to the cooperative agreement from March 13, 2017, through March 12, 2018. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$18,661 in questioned costs identified in the report.**
- 2. Advise MSU to address the report's two internal control findings.**
- 3. Advise MSU to address the report's two noncompliance findings.**

The results of Conrad's audit are in the attached report. We reviewed Conrad's 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 MSU's Special Purpose Financial Statement. We also express no opinion on the effectiveness of MSU's internal control or compliance with the task order, laws, and regulations. Conrad is responsible for the attached auditor's report and the 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 your agency to obtain information on the corrective actions taken in response to our recommendations.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-151)

¹ Cooperative agreement no. 306-AID-OAA-A-13-00006.

Michigan State University

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Grain Research and Innovation (GRAIN) Project

For the Period of March 13, 2017 through March 12, 2018

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August 14, 2019

Board of Trustees
Michigan State University
East Lansing, MI 48823-5243

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

Conrad LLP (referred to as "Conrad" or "we") hereby provides to you our draft report, which reflects results from the procedures we completed during our audit of Michigan State University's ("MSU") Special Purpose Financial Statement ("SPFS") for costs incurred under the portion of the United States Agency for International Development's Cooperative Agreement No. 306-AID-OAA-A-13-00006 that was set aside for the Grain Research and Innovation ("GRAIN") project established in Modification No. 9, for the period of March 13, 2017 through March 12, 2018.

On May 31, 2019, we provided SIGAR with a draft report reflecting our audit procedures and results. MSU received a copy of the report on July 18, 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 MSU. MSU'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 MSU Cooperative Agreement, Modification No. 9.

Sincerely,

A handwritten signature in blue ink that reads "S Perera".

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Background

On March 11, 2013, the United States Agency for International Development (“USAID”) awarded Cooperative Agreement No. 306-AID-OAA-A-13-00006 (“Cooperative Agreement”) to Michigan State University (“MSU” or “University”) in support of the Global Center for Food System Innovation (“GCFSI”) project. GCFSI launched in 2012 and works to improve food systems while focusing on capacity building activities that increase the strengths of agricultural innovation systems. GCFSI is one of eight development labs established through the Higher Education Solutions Network of USAID. GCFSI is housed within MSU’s International Studies and Programs unit, and works with researchers and faculty across campus and around the world. The Cooperative Agreement awarded calls for funding from USAID, non-federal cost-sharing, and leveraging sources. The original performance period was November 8, 2012 through September 30, 2017, with a total estimated USAID award amount of \$24,919,790. However, the Cooperative Agreement was not officially signed until March 11, 2013, but did not change the period of performance. This Cooperative Agreement was modified nine times, which increased the total estimated award amount to \$34,519,790 and extended the completion date to September 30, 2022.

The focus of this audit is on the portion of the Cooperative Agreement that was set aside for the Grain Research and Innovation (“GRAIN”) project established in Modification No. 9. The GRAIN project is aimed at bolstering Afghanistan’s wheat sector. GRAIN will help build the capacity of Afghan researchers to conduct and manage research on wheat and cereals, and will set the stage for development of an in-country wheat research system that responds to the needs of farmers and the private sector. Afghanistan is said to have the world’s highest annual per capita wheat consumption and an improvement in wheat production will assist in advancing the nation’s food security and generate local economic opportunities. USAID issued Modification No. 9 on March 13, 2017, which included the initial buy-in of the USAID / Afghanistan’s GRAIN project, and set aside \$19.5 million of the \$34.5 million USAID award ceiling, for GRAIN. The period of performance is from March 13, 2017 to September 30, 2022.

Work Performed

Conrad LLP (“Conrad”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of MSU’s Special Purpose Financial Statement (“SPFS”) for costs incurred for the GRAIN project that was a buy-in based on USAID’s Cooperative Agreement No. 306-AID-OAA-A-13-00006, Modification No. 9. The period under audit was March 13, 2017, through March 12, 2018. **Please note, when referenced to the SPFS in the remainder of this report, it is related to the SPFS of the GRAIN project only.**

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit include the following:

- *Special Purpose Financial Statement* – Express an opinion on whether MSU’s SPFS for the GRAIN project award 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 GRAIN project award and generally accepted accounting principles or other comprehensive basis of accounting.

- *Internal Controls* – Evaluate and obtain a sufficient understanding of MSU’s internal control related to the GRAIN project award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether MSU complied, in all material respects, with the GRAIN project award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether MSU has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred related to the GRAIN project during the period of March 13, 2017 through March 12, 2018. Our testing of the 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 Cooperative Agreement and applicable Negotiated Indirect Cost Rate Agreement.

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 17, 2019, with representatives of MSU, Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of MSU;
- Reviewed the Cooperative Agreement and Modification No. 9 related to the GRAIN project;
- Reviewed regulations specific to USAID that are applicable to the Cooperative Agreement;
- 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, Automated Directives System (“ADS”) 303, Office of Management and Budget (“OMB”) Circulars A-21 (2 Code of Federal Regulations (“CFR”), Part 220), 2 CFR 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 \$6,900 not to exceed 30% of the total amount expended for each cost category.
- For medium risk cost categories, we sampled transactions greater than \$13,800 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 \$13,800 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.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

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

Internal Controls Related to the Cooperative Agreement

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

Compliance with Cooperative Agreement Requirements and Applicable Laws and Regulations

We performed tests of transactions to determine whether MSU complied, in all material respects, with the Cooperative Agreement requirements, Title 2 Part 200: Code of Federal Regulations (“2 CFR 200”), and any other applicable laws and regulations. We also identified and reported on instances of material

noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Corrective Action on Prior Findings and Recommendations

Conrad requested from MSU as well as conducted a search online to various governmental websites, including SIGAR, USAID, and other applicable Federal agencies, to identify previous engagements that could have a material effect on MSU's SPFS. For those engagements, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. Based on our review of the previous engagements, Conrad did not identify any prior findings and recommendations that could have a material effect on the SPFS. See the Prior Findings and Recommendations subsection of this Summary.

Exit Conference

An exit conference was held on May 15, 2019, via conference call. Participants included representatives from Conrad, Michigan State University, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

Upon completion of our audit of the costs incurred by MSU under the GRAIN project with USAID, we issued an unmodified opinion on the SPFS and identified two findings that amounted to \$18,661 in questioned costs. We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit's results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS. We identified \$18,661 in total questioned costs because they were unsupported. Ineligible costs are explicitly questioned because they are unreasonable; prohibited by the Cooperative Agreement or applicable laws and regulations; or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Findings and Questioned Costs

The two findings listed below are classified as either an internal control deficiency or noncompliance, or if both classifications were identified then a combination of both were presented. 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.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2019-01	Non-compliance; Internal control – Significant deficiency	Lack of evidence for exclusion and anti-terrorist check	\$0	\$0	\$0
2019-02	Non-compliance; Internal control – Significant deficiency	Lack of evidence to support reasonableness of procurement expenses	\$0	\$18,661	\$18,661
2019-03	Finding removed based upon further review of MSU’s Management Response, see MSU’s Management Response in Appendix A and the Auditor Response at Appendix B				
Total Questioned Costs			\$0	\$18,661	\$18,661

Internal Control Findings

Our audit discovered two significant internal control deficiencies. See Independent Auditor’s Report on Internal Control on page 14.

Compliance Findings

The results of our testing disclosed two instances of noncompliance related to this audit. See the Independent Auditor’s Report on Compliance on page 17.

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items were not identified by our testing.

Prior Findings and Recommendations

We did not identify any prior engagements that contained prior findings and recommendations that could have a material effect on MSU’s SPFS.

Summary of MSU's Responses to Findings

The following represents a summary of the responses provided by MSU to the findings identified in this report (The complete responses received can be found in Appendix A to this report):

- 2019-01: MSU agrees they do not have evidence to support their performance of exclusion and anti-terrorist checks for the four discrepancies identified. However, MSU disagrees with this finding's classification as a significant internal control deficiency, stating that it believes that the GRAIN project has effective internal controls and management for restricted party screenings.
- 2019-02: MSU agrees they do not have evidence to substantiate price reasonableness checks for the two discrepancies identified. However, MSU disagrees with the questioned costs identified, and this finding's classification as a significant internal control deficiency stating that it does not represent a systemic issue.
- 2019-03: MSU disagrees with the finding stating that email correspondence supporting the salary increase was obtained subsequent to the end of fieldwork, and provided a copy of the email correspondence along with its management response.



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Trustees
Michigan State University
East Lansing, MI 48823-5243

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of Michigan State University ("MSU") and the related notes to the Special Purpose Financial Statement, with respect to the United States Agency for International Development's Cooperative Agreement No. 306-AID-OAA-A-13-00006 ("Agreement"), Grain Research and Innovation ("GRAIN") Project, for the period of March 13, 2017 through March 12, 2018.

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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Special Purpose Financial Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the MSU'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 MSU'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 unmodified 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 MSU under the Agreement, for the period of March 13, 2017 through March 12, 2018, in accordance with the basis of accounting described in Note 2.

Basis of Presentation

We draw attention to Note 1 to the Special Purpose Financial Statement, which describes the basis of presentation. The Special Purpose Financial Statement was prepared by MSU 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 the Agreement, 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 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 Michigan State University, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated August 13, 2019 on our consideration of MSU'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 MSU's internal control over financial reporting and compliance.

(Continued)

Conrad LLP

Lake Forest, California
August 13, 2019

Michigan State University

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-AID-OAA-A-13-00006

Special Purpose Financial Statement

For the Period of March 13, 2017 – March 12, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	<u>Notes</u>
Revenues:						
306-AID-OAA-A-13-00006	\$ 3,250,000	\$ 1,338,313	\$ _____ -	\$ _____ -	\$ _____ -	(4)
Total revenues	<u>3,250,000</u>	<u>1,338,313</u>	<u>_____ -</u>	<u>_____ -</u>	<u>_____ -</u>	
Costs incurred:						
Salaries	495,833	436,641	-	-	-	
Fringes	326,563	105,057	-	-	-	
Travel	90,000	33,863	-	-	-	
Contractual Services	300,000	141,754	-	-	-	
Materials and Supplies	10,000	11,622	-	-	-	
Other/In-country	856,969	358,713	-	14,810	14,810	(A)
Subawards	500,000	-	-	-	-	
Facilities and Administrative (F&A)	<u>670,635</u>	<u>282,788</u>	<u>_____ -</u>	<u>3,851</u>	<u>3,851</u>	(B)
Total costs incurred	<u>\$ 3,250,000</u>	<u>\$ 1,370,438</u>	<u>\$ _____ -</u>	<u>\$ 18,661</u>	<u>\$ 18,661</u>	
Outstanding fund balance	<u>\$ _____ -</u>	<u>\$ 32,125</u>				

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

Michigan State University

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-AID-OAA-A-13-00006

Notes to the Special Purpose Financial Statement¹

(1) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (“Statement”) includes costs incurred for the USAID/Afghanistan buy-in portion of Modification No. 9 under USAID Cooperative Agreement Award number 306-AID-OAA-A-13-00006 for the period of March 13, 2017 through March 12, 2018. Because the Statement presents only a selected portion of the operations of Michigan State University (“MSU”), it is not intended to and does not represent the financial position, changes in net position, or cash flows of MSU. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) and is specific to the aforementioned USAID Cooperative Agreement Award number 306-AID-OAA-A-13-00006. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic MSU financial statements.

(2) **Basis of Accounting**

Expenditures reported on the Statement are reported on a cash basis and such expenditures are in accordance with the cost principles of the Uniform Guidance, 2 CFR 200. Cost was recognized when the transaction was finalized, fully routed, and approved in their system for payment.

(3) **Foreign Currency Conversion Method**

For purposes of preparing the Statement, conversions from foreign currency to United States dollars (USD) were not required. The Statement was prepared using MSU’s operating statements/ledgers and all expenses paid in foreign currency were converted to USD prior to posting to the operating statement.

(4) **Revenues**

Revenues on the Statement represent the amount of funds MSU received as reimbursement from USAID for the allowable and eligible costs incurred under the buy-in portion of Modification No. 9 of the Cooperative Agreement through the audit period end date of March 12, 2018.

(5) **Costs Incurred by Budget Category**

The budget categories and associated amounts presented reflect the anticipated spending by budget line for the buy-in portion of Modification No. 9 of the Cooperative Agreement, as well as the actual incurred costs by budget category through March 12, 2018. The budgeted amounts presented are reflective of the full project period, which extends beyond the period covered by the Statement for actual revenue/reimbursement and costs incurred.

¹ These Notes to the Special Purpose Financial Statement are the responsibility of Michigan State University.

Michigan State University

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-AID-OAA-A-13-00006

Notes to the Special Purpose Financial Statement

(6) Balance

For the period of March 13, 2017 through March 12, 2018 under the GRAIN project, MSU received \$1,338,313 in payments and incurred costs of \$1,370,438. The outstanding fund balance of \$32,125 represents the amount obligated to be paid to MSU by USAID.

(7) Currency

All amounts presented are shown in United States dollars.

(8) Program Status

The Cooperative Agreement remains active. The period of performance for the contract is scheduled to conclude on September 30, 2022 as noted in modification no. 10 dated August 7, 2018. Modification no. 10 is not in scope for the current review period and had no effect on the amounts reported in the SPFS. It is mentioned here for informational purpose only.

(9) Subsequent Event

Management has performed an analysis of the activities and transactions subsequent to the March 13, 2017 through March 12, 2018 period covered by the SPFS. Management has performed their analysis through August 13, 2019.

Michigan State University

Financial Audit of Costs Incurred Under Cooperative Agreement No. 306-AID-OAA-A-13-00006

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

For the Period of March 13, 2017 through March 12, 2018

(A) Other/In-country

MSU reported other/in-country expenses of \$358,713 for the period from March 13, 2017 through March 12, 2018. During our sample review of these costs, we noted that MSU was unable to provide evidence of a price reasonableness/justification check as it related to other/in-country expenses. This resulted in unsupported costs of \$14,810. See Finding No. 2019-02 in the Schedule of Findings and Questioned Costs section of this report.

(B) Facilities and Administrative

MSU reported indirect costs totaling \$282,788 for the period of March 13, 2017 through March 12, 2018. During our testing, we noted that indirect costs associated with the unsupported costs noted at **Note A** above totaled \$3,851, which is being questioned as an unsupported indirect cost. See Finding No. 2019-02 in the Schedule of Findings and Questioned Costs section of this report.

² These 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 Trustees
Michigan State University
East Lansing, MI 48823-5243

To the 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 Michigan State University ("MSU") representing revenues received and costs incurred under Cooperative Agreement No. 306-AID-OAA-A-13-00006 ("Agreement"), Grain Research and Innovation ("GRAIN") Project, with the United States Agency for International Development ("USAID") for the period of March 13, 2017 through March 12, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 13, 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

MSU'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 Agreement; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the 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)

- 14 -

In planning and performing our audit of the Special Purpose Financial Statement of MSU for the period of March 13, 2017 through March 12, 2018, 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that 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 deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Findings 2019-01 and 2019-02, which we consider to be significant deficiencies.

MSU's Response to Findings

MSU's response to the findings identified in our audit is included verbatim in Appendix A. MSU'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 MSU's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of Michigan State University, 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

(Continued)

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
August 13, 2019



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Trustees
Michigan State University
East Lansing, MI 48823-5243

To the 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 Michigan State University ("MSU"), representing revenues received and costs incurred under Cooperative Agreement No. 306-AID-OAA-A-13-00006 ("Agreement"), Grain Research and Innovation ("GRAIN") Project, with the United States Agency for International Development ("USAID") for the period of March 13, 2017 through March 12, 2018, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated August 13, 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 Agreement are the responsibility of the management of MSU.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSU'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. 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 two 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 and 2019-02.

(Continued)

MSU's Response to Findings

MSU's response to the findings identified in our audit is included verbatim in Appendix A. MSU'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.

Restriction on Use

This report is intended for the information of Michigan State University, 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.

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

Lake Forest, California
August 13, 2019

Michigan State University

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-AID-OAA-A-13-00006

For the Period of March 13, 2017 through March 12, 2018

Schedule of Findings and Questioned Costs

Finding 2019-01: Lack of evidence for Exclusion and Anti-terrorist check

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

Condition: Conrad judgmentally selected 11 out of 190 transactions related to contractual expenses and other in-country expenses to determine if MSU performed exclusion and/or anti-terrorist checks prior to their purchases. For four of these samples, MSU did not provide evidence, during or at the conclusion of fieldwork, to demonstrate if these contract vendors have ever been excluded or debarred. As such, it could not be concluded whether the Federal funds were used in support of any terrorist activities.

For one of the 11 samples tested, MSU did not perform the exclusion and/or anti-terrorist check. For three of the 11 samples, MSU was unable to locate evidence to support the exclusion and/or anti-terrorist check. Conrad conducted an exclusion and anti-terrorist check review on the vendors related to the four samples and did not find any of the vendors to be either an excluded party or a terrorist. As such, no costs are being questioned.

Criteria: 2 CFR 200, Appendix II to Part 200, Section I - Contract Provisions for Non-Federal Entity Contracts Under Federal Awards, states in part:

"(I) Debarment and Suspension - A contract award (see 2 CFR 180.220) must not be made to parties listed on the governmentwide Excluded Parties List System in the System for Award Management (SAM), in accordance with the OMB guidelines at 2 CFR 180 that implement Executive Orders 12549 (3 CFR Part 1986 Comp., p. 189) and 12689 (3 CFR Part 1989 Comp., p.235), "Debarment and Suspension." The Excluded Parties List System in SAM contains the names of parties debarred, suspended, or otherwise excluded by agencies, as well as parties declared ineligible under statutory or regulatory authority other than Executive Order 12549."

Section 1.4(b)(C) (Agreement Budget – Budget Revisions – Sub-Award, Transfer, or Contracting-Out of any Work) of the Cooperative Agreement states in part:

"It is also the responsibility of the Recipients to ensure all recipients of USAID funds under this Award are checked against the Excluded Parties List at www.sam.gov and the U.S. Treasury "Specially Designated Nationals and Blocked Persons"...per the Standard Provisions entitled "Preventing Terrorist Financing – Implementation of E.O. 13224."

Section 1.6.6 (Procurement and Contracting - Ineligible Suppliers) of the Cooperative Agreement states:

"In purchasing all goods and services with funds provided under this Agreement, the Recipient shall comply with the supplier eligibility requirements set forth in: (I) paragraph (b)(2) of the

(Continued)

Standard Provision entitled "USAID Eligibility Rules for Goods and Services; (2) 22 CFR 226A4(d); and (3) the Standard Provision entitled "Preventing Terrorist Financing-- Implementation Of E.O. 13224."

Section 9 of Attachment 3 (Standard Provisions - Debarment, Suspension, and Other Responsibility Matters) of the Cooperative Agreement states in part:

"The recipient...will not knowingly enter into any sub agreements or contracts under this award with a person or entity that is included on the Excluded Parties List System."

Section 12 of Attachment 3 (Standard Provisions – Preventing Terrorist Financing – Implementation of E.O. 13224) of the Cooperative Agreement states in part:

"The recipient is reminded that U.S. Executive Orders and U.S. law prohibits transactions with, and the provision of resources and support to, individuals and organizations associated with terrorism. The recipient must not engage in transactions with, or provide resources or support to, individuals and organizations associated with terrorism. In addition, the recipient must verify that no support or resources are provided to individuals or entities that appear on the Specially Designated Nationals and Blocked Persons List maintained by the U.S. Treasury or the United Nations Security designation list."

2 CFR 200.403, *Factors affecting allowability of costs*, further states:

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

- (a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...
- (g) Be adequately documented..."

MSU's University Services Purchasing Policy, states, in part:

"...The U.S. Treasury Department's Office of Foreign Asset Control (OFAC) maintains a list of countries with which economic trade sanctions have been imposed. The sanctions pertain to importing and exporting goods and services to and from countries whose practices are inconsistent with U.S. foreign policy and national security. Under no circumstances should a shipment or purchase be made to or from a country, business, or individual that appears on the sanctioned list. View the current list of sanctioned countries..."

"...All foreign purchases require that an entity check be conducted to ensure we are not doing business with an entity that is debarred, sanctioned or otherwise banned by the Federal Government. Purchasing coordinates this check as a routine element of processing orders to foreign entities. In the event that a supplier does not clear the check, a purchase order will not be issued nor will the supplier be paid through other means..."

Furthermore, MSU's Record Retention Policy for Sponsored Programs Administration, states in part:

"The retention period of an RC account is determined by reviewing the agreement terms and conditions. If a specific retention period is not listed in the agreement then CGA uses the following guidelines to determine the appropriate destroy date for RC accounts:

(Continued)

- Grant – 3 years from submission of final financial report
- Contract – 3 year from final payment...”

Cause: This finding has two causes: 1) MSU’s operational staff in their Afghanistan field office did not follow the purchasing policy, and failed to conduct an exclusion check prior to purchase; 2) MSU’s operational staff in their Afghanistan field office did not follow their documentation retention policy, and failed to retain exclusion check documentation. There were personnel changes in the field office, and the remaining staff was unable to locate some of the exclusion check documentation.

Effect: MSU’s inability to provide the evidence of exclusion or anti-terrorist checks resulted in raising the risk that Federal funds might be used in support of terrorist activities, and also may have increased the probability of ineligible costs being claimed.

Questioned Costs: None.

Recommendation: We recommend that MSU train their Afghanistan field office operational staff on performing exclusion and anti-terrorist checks in accordance with their purchasing policy and the terms of the Cooperative Agreement. Specifically, staff should perform these checks on all vendors prior to issuing payment, and document and retain the results.

Finding 2019-02: Lack of evidence to support price reasonableness of procurement expenses

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

Condition: Conrad judgmentally tested eight out of 45 transactions related to other/in-country expenses to determine if the costs charged to the Cooperative Agreement were adequately supported, allowable, allocable, and reasonable. For two of the eight samples tested, MSU was unable to provide support evidencing a price reasonableness check resulting in \$18,661 in questioned costs as detailed below:

Sample No.	Vendor	Description	Amount
00006-6489-4	Oasis Logistics	MSU staff accommodation in Afghanistan June 2017	\$ 12,865
00006-6489-5	Oasis Logistics	MSU staff accommodation in Afghanistan July 2017	5,796
		Total	<u>\$ 18,661</u>

Criteria: 2 CFR 200.404, *Reasonable Costs*, states:

"A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. The question of reasonableness is particularly important when the non-Federal entity is predominantly federally-funded. In determining reasonableness of a given cost, consideration must be given to:...

(c) Market prices for comparable goods or services for the geographic area.

(d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the non-Federal entity, its employees, where applicable its students or membership, the public at large, and the Federal government.

(e) Whether the non-Federal entity significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the Federal award's cost."

2 CFR 200.403, *Factors affecting allowability of costs*, further states:

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

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...

(g) Be adequately documented..."

MSU's University Services Purchasing Policy, Section 270.3, states:

"The Purchasing Department has the responsibility and authority to issue purchase orders and/or sign contracts on behalf of the Board of Trustees of Michigan State University. The authority and responsibility includes providing assurance that procurement activities are conducted in a manner that is ethical, transparent, open, and competitive, with clear demonstration of fair and reasonable pricing."

(Continued)

Furthermore, MSU's University Services Purchasing Policy, Section 270.7, Competitive Solicitation, states in part:

"The purchase of equipment, materials, supplies, and/or services is subject to university policy which stipulates an open and competitive solicitation process resulting in the university obtaining quality product and services at a fair and reasonable price."

Furthermore, MSU's Record Retention Policy for Sponsored Programs Administration, states in part:

"The retention period of an RC account is determined by reviewing the agreement terms and conditions. If a specific retention period is not listed in the agreement then CGA uses the following guidelines to determine the appropriate destroy date for RC accounts:

- Grant – 3 years from submission of final financial report
- Contract – 3 year from final payment..."

Cause: MSU relied on its Chief of Party ("CoP") to conduct and maintain documentation for price reasonableness checks for vendors MSU contracted in Afghanistan. MSU stated that due to change in personnel, the previous CoP did not follow its retention policy to maintain the evidence of price reasonableness checks. However, Conrad cannot confirm if the reasonableness check was actually conducted or not or if MSU did not maintain the document of reasonableness check.

Effect: MSU's failure to perform price reasonableness checks and maintain sufficient evidence to support the reasonableness of purchases could lead to overpaying for goods and services. Moreover, it could increase the risk of vendor favoritism, and paying unreasonable prices for the purchase.

Questioned Costs: Unsupported costs identified totaled \$18,661, of which \$3,851 represented associated indirect costs.

Recommendation:

- (1) We recommend that MSU provide evidence of reasonableness check to determine the costs were reasonable or return \$18,661 of unsupported costs to USAID.
- (2) We recommend that MSU provide training to its CoP on in-country purchasing and contracting procedures in accordance with their retention and procurement policy.

Finding 2019-03: *Finding removed based on further review of MSU's Management Response, see MSU's Management Response in Appendix A and the Auditor's Response at Appendix B.*

Michigan State University

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-AID-OAA-A-13-00006

For the Period of March 13, 2017 12, 2016 through March 12, 2018

Michigan State University 's Responses to Findings

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

Michigan State University

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-AID-OAA-A-13-0006

For the Period of March 13, 2017 through March 12, 2018

Michigan State University's Responses to Findings

Finding 2019-01: Lack of evidence for Exclusion and Anti-terrorist check

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

Condition: Conrad judgmentally selected 11 out of 190 transactions related to contractual expenses and other in-country expenses to determine if MSU performed exclusion and/or anti-terrorist checks prior to their purchases. For four of these samples, MSU did not provide evidence, during or at the conclusion of fieldwork, to demonstrate if these contract vendors have ever been excluded or debarred. As such, it could not be concluded whether the Federal funds were used in support of any terrorist activities.

For one of the 11 samples tested, MSU did not perform the exclusion and/or anti-terrorist check. For three of the 11 samples, MSU was unable to locate evidence to support the exclusion and/or anti-terrorist check. Conrad conducted an exclusion and anti-terrorist check review on the vendors related to the four samples and did not find any of the vendors to be either an excluded party or a terrorist. As such, no costs are being questioned.

Questioned Costs: None

Recommendation: We recommend that MSU train their Afghanistan field office operational staff on performing exclusion and anti-terrorist checks in accordance with their purchasing policy and the terms of the Cooperative Agreement. Specifically, staff should perform these checks on all vendors prior to issuing payment, and document and retain the results.

Michigan State University Response:

Michigan State University (MSU) utilizes the Visual Compliance software for restricted party screening. Visual Compliance checks the search criteria against 60 authorities, including Denied Persons List, Designated Terrorist Organizations, GSA Excluded Parties, Terrorist Exclusion List, and Specially Designated Nationals and Blocked Persons (OFAC). An example of a Visual Compliance search is included as "Attachment 1" to show the entire list of authorities.

As part of MSU's paid service through Visual Compliance, any vendor screened by a MSU login, is subsequently rescreened daily in Visual Compliance. The results of the daily rescreening are maintained by Visual Compliance to reduce MSU's burden of housing documentation related to thousands of vendors. MSU is able to contact Visual Compliance at any time for the screening history of vendors by MSU logins. In the event that a vendor's status changes in any of the 60 authorities, MSU is immediately notified by Visual Compliance via email. Although any MSU unit is able to use MSU's Visual Compliance license, some units may choose to perform checks using other methods, such as directly from the Sanctions Lists on the Office of Foreign Assets Control's website.

MSU acknowledges that in the four cases noted by Conrad LLP in this finding, we were unable to provide the evidence that a check was performed for exclusion and anti-terrorist. However, based on MSU and the GRAIN in-country team's process during the audit period, the restricted party status may have been checked outside Visual Compliance. As Conrad LLP indicated, the four cases represented vendors who are not restricted from receiving federally funded payments and therefore no payments were made to excluded or terrorist parties.

MSU's GRAIN in-country team started exclusively using Visual Compliance for all restricted party screenings of project vendors in October 2018. Prior to October 2018, the GRAIN in-country team utilized Visual Compliance, as well as other methods to verify vendor exclusions and anti-terrorist status. Due to the high risk nature of vendors in Afghanistan, MSU purchased an enhanced service from Visual Compliance. This enhanced service documents the daily rescreening of a vendor list, maintained by the GRAIN staff, in a daily confirmation email regardless of status changes. These daily notifications allow GRAIN and MSU to quickly stop a payment in the event a vendor's status changes. As a result of exclusively implementing Visual Compliance screenings, the GRAIN in-country team's process is formally documented and available as a training resource for all staff.

MSU believes that the GRAIN project has effective internal controls and management for restricted party screenings, including exclusions and anti-terrorist checks, and therefore this finding should not be classified as a significant deficiency.

Finding 2019-02: Lack of evidence to support price reasonableness of procurement expenses

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

Condition: Conrad judgmentally tested eight out of 45 transactions related to other/in-country expenses to determine if the costs charged to the Cooperative Agreement were adequately supported, allowable, allocable, and reasonable. For two of the eight samples tested, MSU was unable to provide support evidencing a price reasonableness check resulting in \$18,661 in questioned costs as detailed below:

Sample No.	Vendor	Description	Amount
00006-6489-4	Oasis Logistics	MSU staff accommodation in Afghanistan June 2017	\$ 12,865
00006-6489-5	Oasis Logistics	MSU staff accommodation in Afghanistan July 2017	5,796
		Total	\$ 18,661

Questioned Costs: Unsupported costs identified totaled \$18,661, of which \$3,851 represented associated indirect costs.

Recommendation:

- (1) We recommend that MSU provide evidence of reasonableness check to determine the costs were reasonable or return \$18,661 of unsupported costs to USAID.
- (2) We recommend that MSU provide training to its CoP on in-country purchasing and contracting procedures in accordance with their retention and procurement policy.

Michigan State University Response:

At the start of the GRAIN project, there was an immediate need to develop an in-country presence by establishing an office location in Kabul with in-country personnel. Michigan State University (MSU) knew that this lodging location would be short-term while the bidding and procurement occurred on a more permanent location that would meet the project's current and future needs. However, because MSU was unaccustomed with Afghanistan and safety was a significant concern, we relied heavily on those more familiar with the area for references related to short term lodging, including the former GRAIN Chief of Party (CoP) who had worked in the area for many years.

The former CoP indicated that because of security concerns, few facilities in Kabul were suitable for housing ex-pats. Several criteria were considered in the choice of short-term lodging including facility security, low profile visibility, location near the airport, price and access by Afghan nationals, as meetings were frequent with Afghan nationals during GRAIN project startup.

In order to expedite the selection, the most effective way to obtain information for the lodging options was either verbally or in person from each of the four possible facilities (Kabul Oasis, The Baron, Green Village and Darya Village). The CoP had several discussions with facilities and based on those conversations, made a recommendation which was vetted for safety by Premier International Risk Management, GRAIN's contracted security firm. As a result, Oasis was determined to be the most reasonable solution for short-term lodging during this period. Unfortunately, due to the CoP transition, the detailed notes related to the conversations with the facilities are not available.

Although written quotes were not received from the four entities, cost was not the only consideration for reasonableness. Three of the facilities were high-profile with restrictive policies on Afghan national access. Only one of the four options, Oasis, met the criteria most critical for project success. In addition, although no maximum lodging rate is published by the Department of State for Afghanistan, there is a footnote allowing for \$102 per night in lodging and \$100 M&IE for authorized travelers in Kabul (<https://aoprals.state.gov/web920/footnote.asp?Footnote=2,19>). The Oasis nightly lodging rate of \$110, included accommodations and daily meals, and therefore was well below the \$202 maximum per diem rate for Kabul.

The cost of lodging at Oasis was a short-term solution as MSU moved to a more permanent location after two months. Although written quotes were not obtained through a procurement process, price reasonableness as evidenced by the Department of State website, as well as safety and security, were considerations in determining Oasis as the best option. Therefore, MSU believes that the costs related to Oasis for short-term lodging should not be questioned costs, and as it does not represent a systemic issue, should not be classified as a significant deficiency.

Finding 2019-03: Lack of evidence to support pay increase for an academic employee

Nature of Finding: Non-compliance and Internal Control – Deficiency

Condition: Conrad judgmentally reviewed 11 out of 14 employees charged to the GRAIN project to determine if MSU's charges to the Cooperative Agreement were adequately supported, allowable, allocable, and reasonable. For one of the 11 employees reviewed, MSU was unable to provide the applicable salary merit/increase documentation for the academic year 2017-2018, which resulted in \$782 in questioned costs.

Questioned Costs: Unsupported costs identified totaled \$782, of which \$152 represented associated fringes and \$161 represented associated indirect costs.

Recommendation:

- (1) We recommend that MSU provide the appropriate source documentation to properly substantiate that the pay increase claimed was allowable or return \$782 to USAID.
- (2) We recommend that MSU provide further training to staff to adhere to their policies and procedures as it relates to the retention of source documentation.

Michigan State University Response:

Michigan State University's (MSU) standard process for academic merit pay increases is that colleges/departments process them annually for effective dates of October 1. Academic salary increases related to promotions or job changes may be processed at any time throughout the calendar year. In the case of the increase referenced in this finding, the academic employee was promoted to Senior Academic Specialist, however the pay increase related to the promotion was not immediately processed. Subsequent to fieldwork completed by Conrad LLP, MSU was able to obtain email correspondence supporting the \$2,000 pay increase for the academic employee's promotion, attached as "Attachment 2".

Most academic merit increases or promotions are not solely based on sponsored project activity, as academic positions include many other responsibilities such as teaching and outreach. Therefore, promotions are requested in many different formats. In this case, the letter requesting and justifying the promotion was submitted in March 2017. The promotion was approved in July 2017, to be effective October 1, 2017. However, the salary increase for the promotion was not processed until December 2017. The correspondence between the department and Academic Human Resources details the timeline and supports the amount questioned in this finding.

MSU believes this finding should be removed as the salary increase amount questioned in this finding is sufficiently supported and the unit retained the documentation.

VISUAL COMPLIANCE RESTRICTED PARTY SCREENING

Search criteria: **Michigan State University [U.S.A.]** (Fuzzy match)
 [Export, Sanctions, GSA, Police, PEP and International data groups]

Date of search: **Wednesday, July 31, 2019**

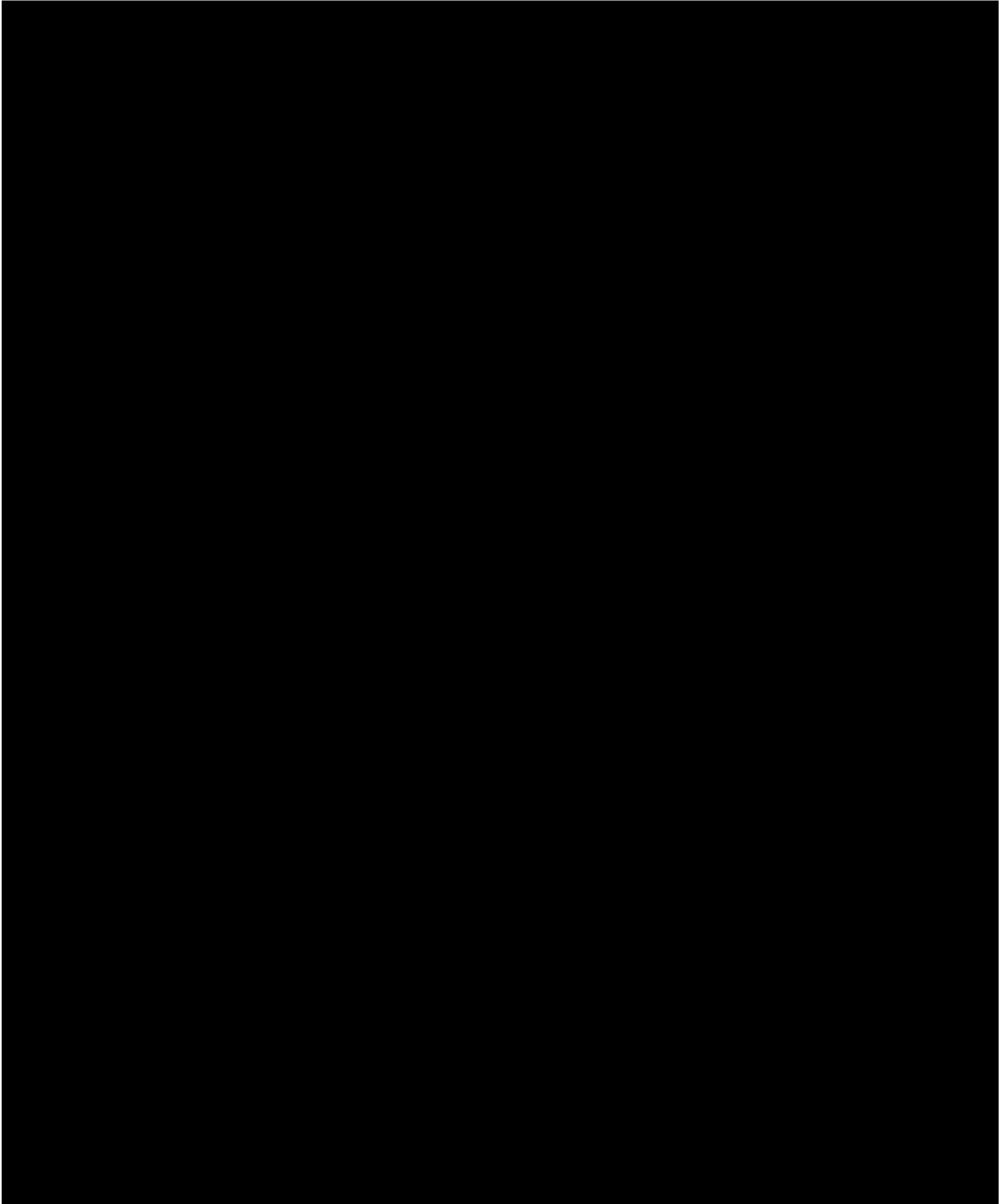
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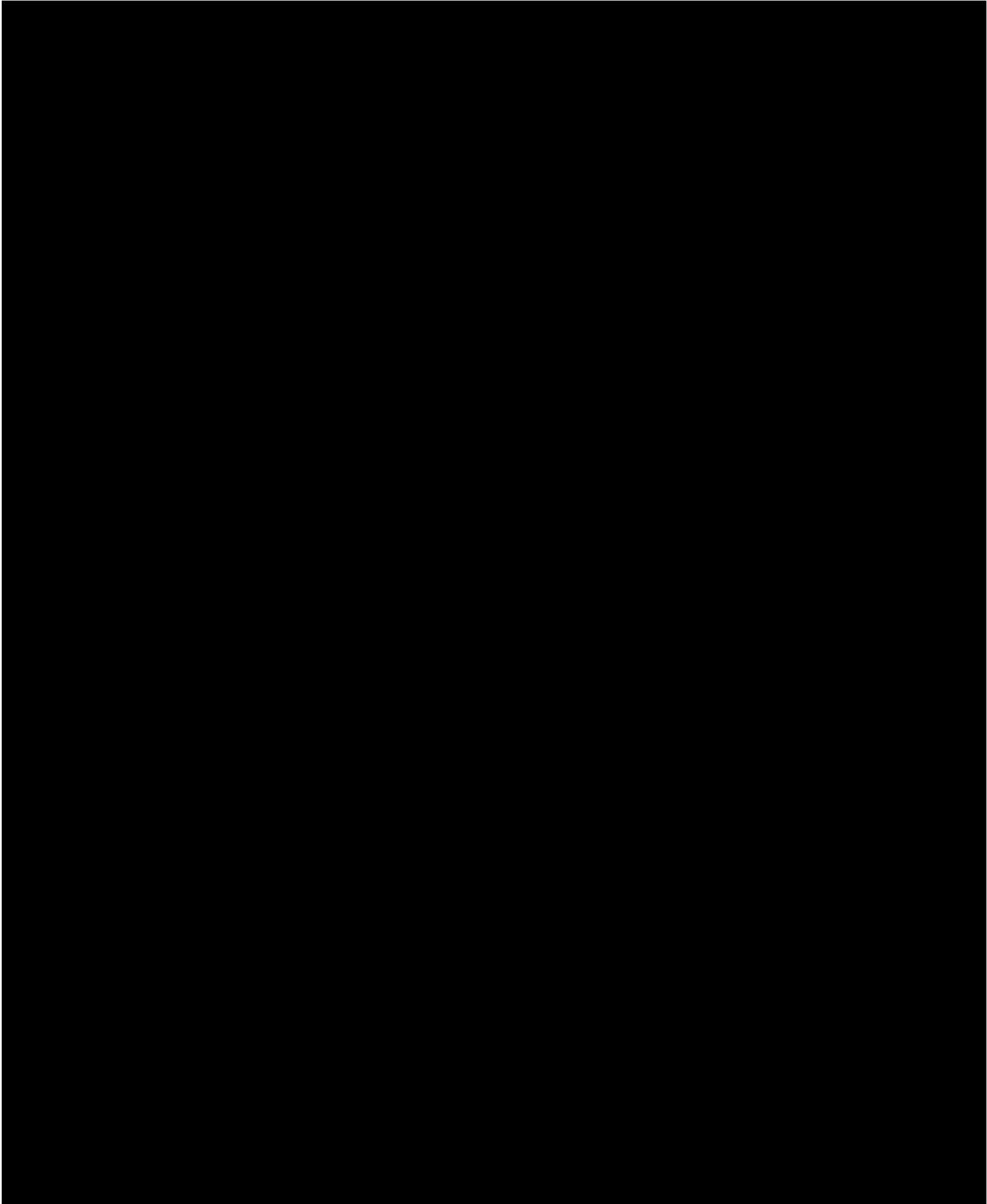
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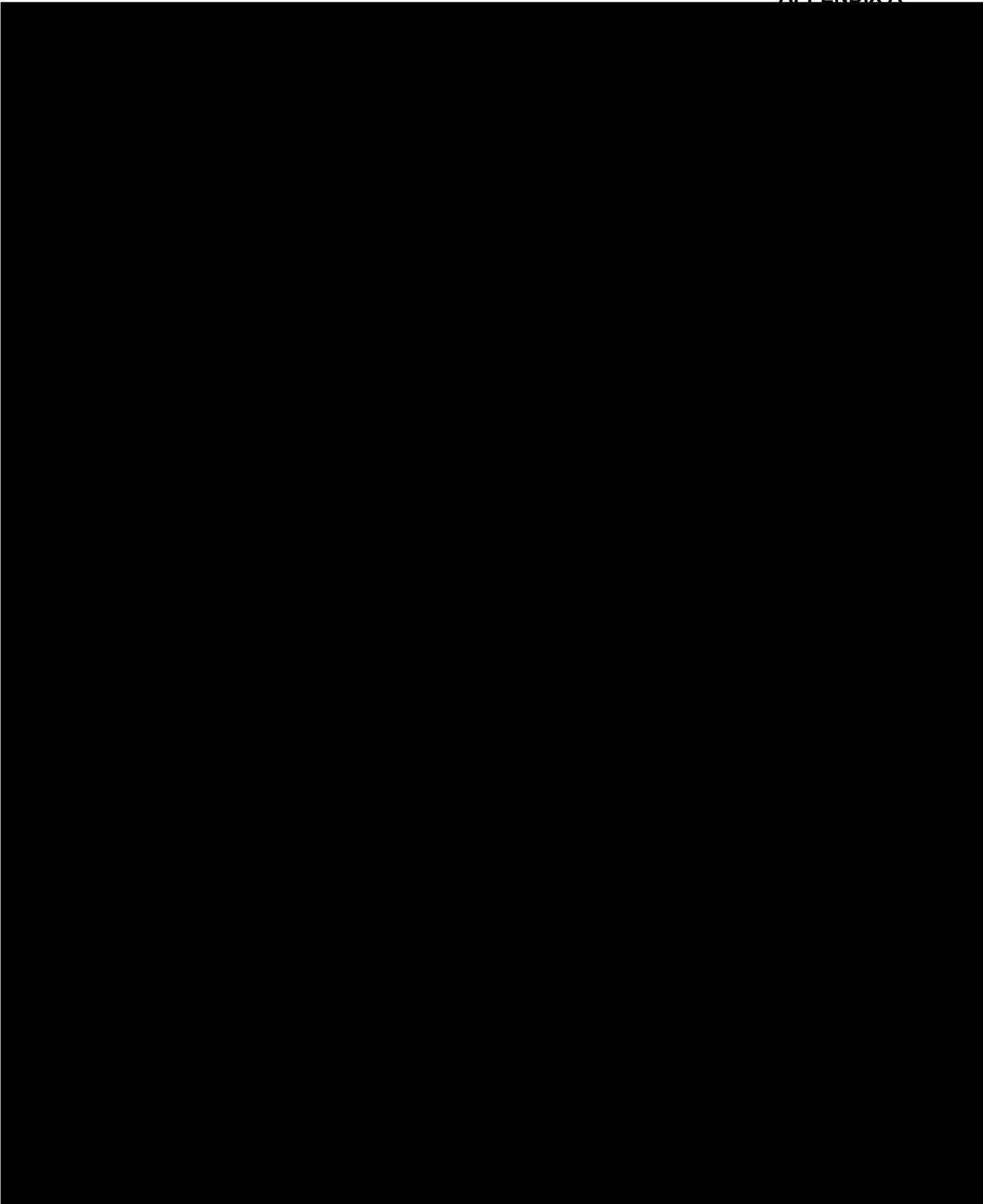
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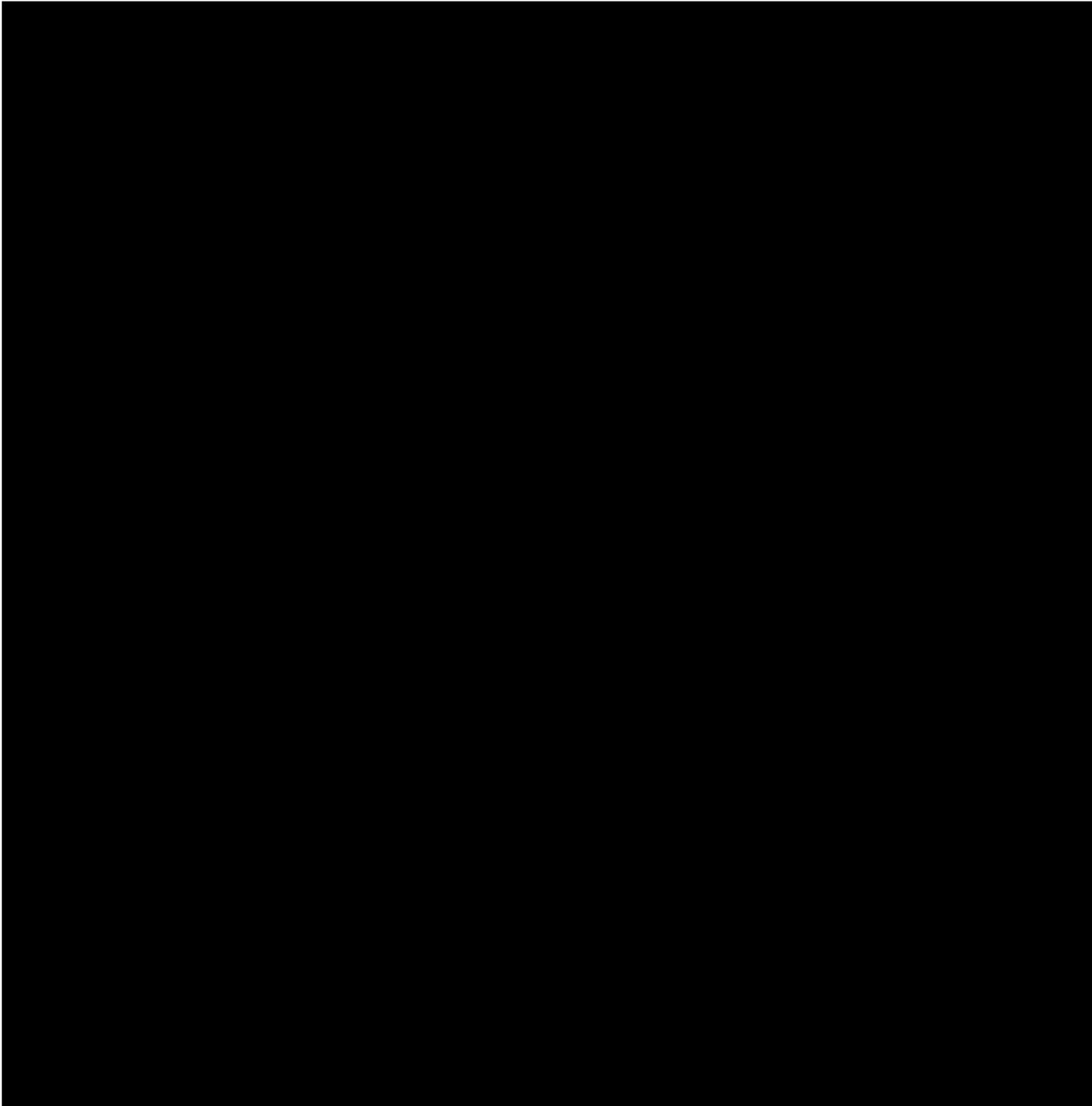
NO MATCHING RECORDS FOUND**AUTHORITIES:**

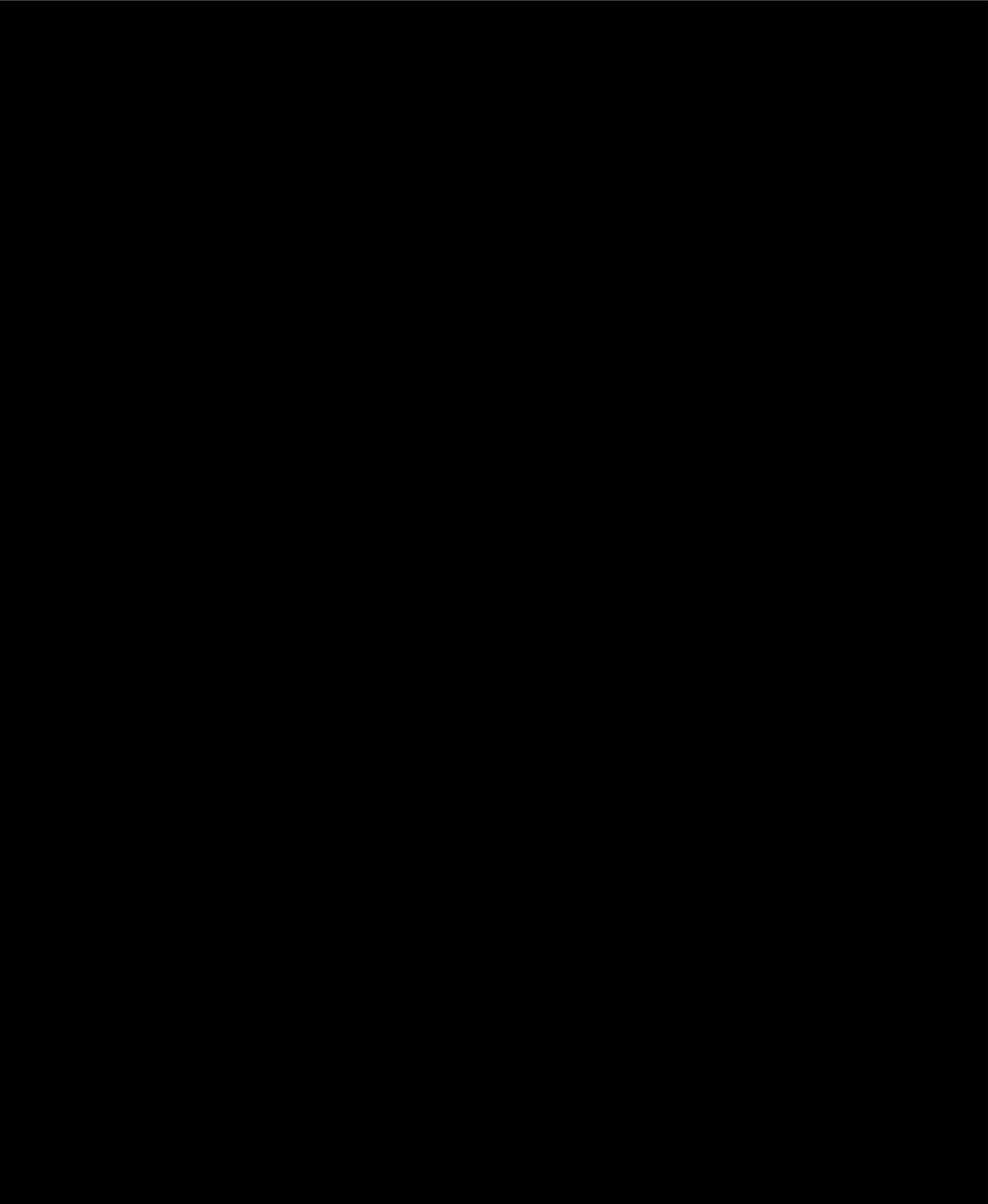
- AECA Debarred Parties [DDTC]
- AFOSI - Top Ten Fugitives
- ATF Most Wanted
- Australia Foreign Affairs Consolidated List
- Canada Economic Sanctions
- Canadian Border Services Agency Wanted List
- CIA Chiefs of State and Cabinet Members (PEP)
- CPSEP Listed Entities
- Cuba Restricted List
- Denied Persons List [BIS]
- Designated Terrorist Organizations
- Entity List [BIS]
- European Union Consolidated List
- Europol Most Wanted Fugitives
- FBI Kidnappings and Missing Persons
- FBI Most Wanted Terrorists
- FBI Seeking Information
- FBI Ten Most Wanted Fugitives
- FBI Wanted Fugitives
- FDA - Clinical Investigators
- FDA - Debarment List
- FDA - Disqualified and Restricted
- FinCEN Section 311 - Special Measures
- Foreign Sanctions Evaders
- GSA Excluded Parties - Nonprocurement
- GSA Excluded Parties - Procurement
- GSA Excluded Parties - Reciprocal
- HM Treasury Consolidated List
- Homeland Security Investigations Most Wanted
- ICE Most Wanted
- Interpol Recently Wanted
- Japan Foreign End-Users of Concern
- Kingdom of Saudi Arabia Wanted Militants
- Munitions Export Control Order [DDTC]
- NCIS Wanted Fugitives
- Nonproliferation Orders
- OIG List of Excluded Individuals/Entities
- OMM Vessels Blacklisted in Annex III of UN Resolution 2270 (2016)
- OSFI Consolidated List - Entities
- OSFI Consolidated List - Individuals
- OSFI Warning List
- Palestinian Legislative Council List [OFAC]
- PHS Administrative Actions Listing
- RCMP Wanted Fugitives
- Sectoral Sanctions Identifications
- Senior Political Figures and Oligarchs in the Russian Federation
- Specially Designated Nationals and Blocked Persons [OFAC]
- Terrorist Exclusion List
- U.S. DEA Major Fugitives
- U.S. Federal Register General Orders
- U.S. Marshals Service - Fugitives
- U.S. Marshals Service Most Wanted
- U.S. Postal Inspection Service
- U.S. Secret Service Most Wanted
- UN Designated Vessels Pursuant to Resolutions 1718 and 2270
- UN Port Ban Vessels
- United Nations Consolidated List
- Unverified List [BIS]
- WMD Trade Control Designations [OFAC]
- World Bank Listing of Ineligible Firms

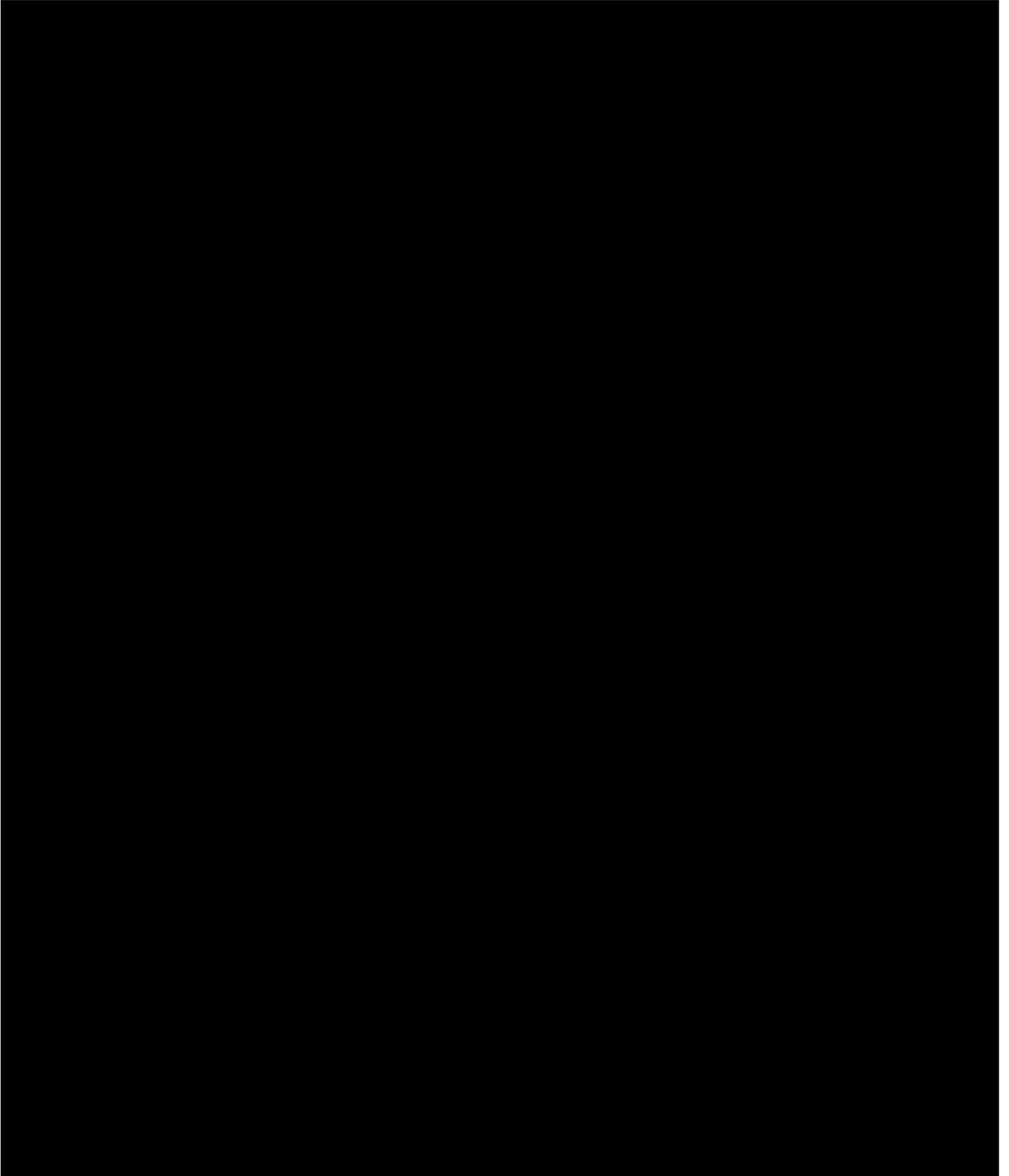


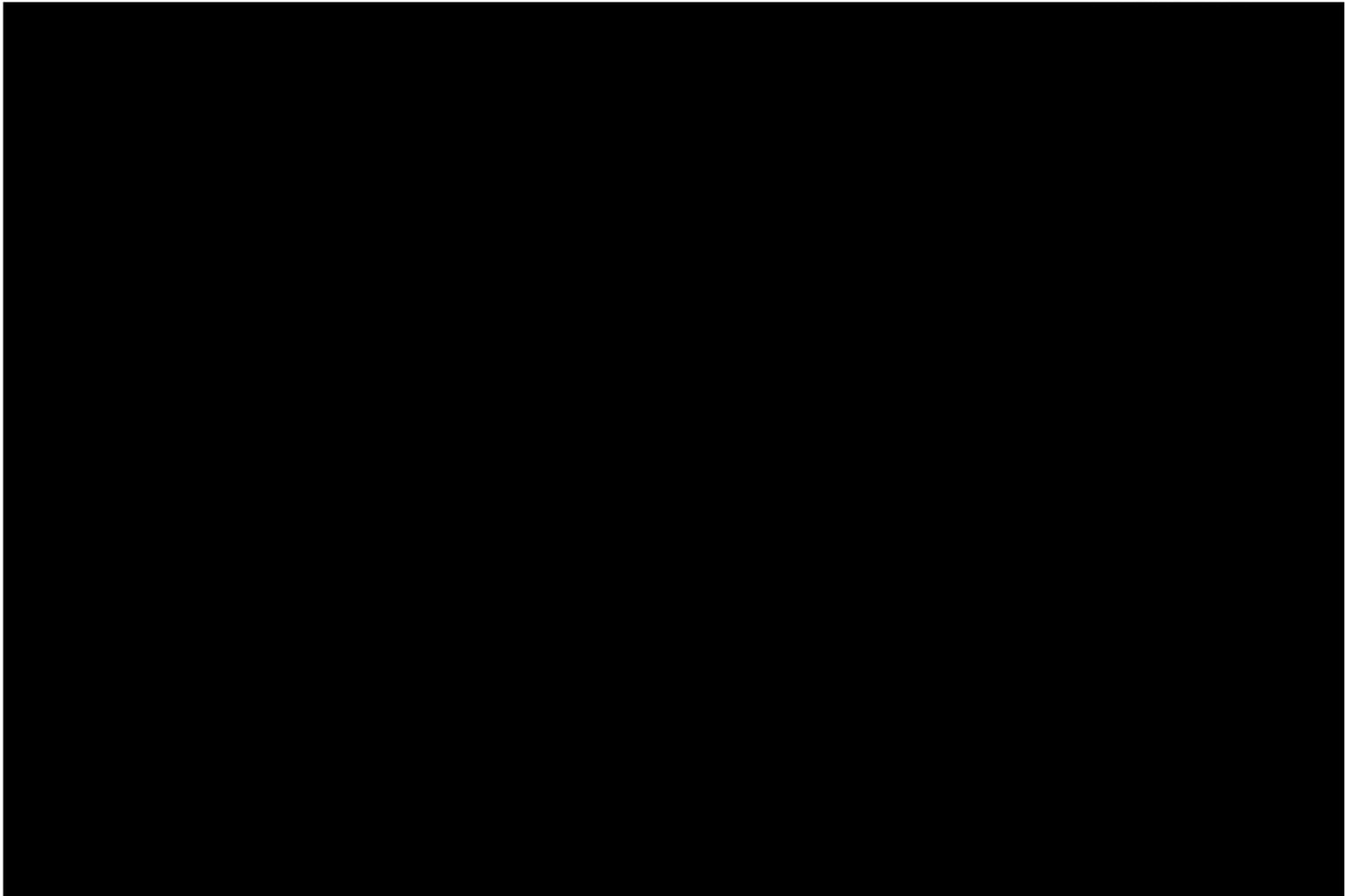












Michigan State University

Financial Audit of Costs Incurred Under
Cooperative Agreement No. 306-AID-OAA-A-13-00006

For the Period of March 13, 2017 through March 12, 2018

Auditor's Rebuttal to MSU's Responses to Findings

MSU disagreed or partially disagreed with Findings 2019-01, 2019-02, and 2019-03. We have reviewed MSU's responses and provided the following rebuttals:

- 2019-01: MSU agrees they do not have evidence to support their performance of exclusion and anti-terrorist checks for the four discrepancies identified. However, MSU disagrees with this finding's classification as a significant internal control deficiency, stating that it believes that the GRAIN project has effective internal controls and management for restricted party screenings.

Auditor Rebuttal: MSU stated that its in-country GRAIN team started utilizing Visual Compliance exclusively starting October 2018 and that internal controls surrounding exclusion and anti-terrorist checks have been strengthened. Since our audit period ends in March 2018, we cannot confirm whether the exclusive Visual Compliance system was operating effectively.

Prior to October 2018, MSU stated that they had a combined check system, which included Visual Compliance or other check methods; however, it was unclear as to what MSU's other exclusion and anti-terrorist check methods were. Moreover, MSU did not provide evidence for those other check methods. Furthermore, in our discussion with MSU during fieldwork, MSU clearly stated that they did not perform a check on one of the vendors. Given this check was not performed, and the lack of any further evidence to support the other check methods, there is sufficient audit evidence for our conclusion that internal controls for exclusion checks prior to March 2018 was not effective and a significant internal control deficiency existed.

Furthermore, as stated in the finding condition, evidence of exclusion and anti-terrorist checks were not provided for 4 out the 11 (approximately 36%) sampled transactions. 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. The presence of such a deficiency does not mean that a material misstatement has occurred, but it does indicate the significance of occurrence existed. As such, our finding, classification of finding, and recommendation remain unchanged.

- 2019-02: MSU agrees they do not have evidence to substantiate price reasonableness checks for the two discrepancies identified. However, MSU disagrees with the questioned costs identified, and this finding's classification as a significant internal control deficiency stating that it does not represent a systemic issue.

Auditor Rebuttal: Although the cumulative total of nightly lodging and meals and incidental expenses appeared to be below the maximum allowed per diem rate, MSU still could not provide evidence to properly substantiate a clear demonstration of fair and reasonable pricing

(Continued)

impacts compliance in accordance with 2 CFR 200.403 and MSU's Purchasing Policy (see criteria section of finding noted at Schedule of Findings and Questioned Costs).

Furthermore, as stated in the finding condition, evidence to support price reasonableness of procurement expenses was not provided for two out the eight (approximately 25%) sampled transactions. 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. The presence of such a deficiency does not mean that a material misstatement has occurred, but it does indicate the significance of occurrence existed. As such, our finding, classification of finding, questioned costs, and recommendation remain unchanged.

- 2019-03: MSU disagrees with the finding stating that email correspondence supporting the salary increase was obtained subsequent to the end of fieldwork and provided a copy of the email correspondence along with its management response.

Auditor Response: Conrad reviewed the additional documentation provided by MSU and accepted the evidence for the salary increase as adequate support. As such, this finding has been removed.

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Public Affairs Officer

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