

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

SIGAR 20-12 Financial Audit

### USAID's Initiative for Hygiene, Sanitation, and Nutrition in Afghanistan: Audit of Costs Incurred by FHI 360

Following the December 5, 2019, issuance of this report, SIGAR received notice from the Director of Financial Management for FHI 360 informing us that the company's name was incorrectly identified as "FHI 360 Global LLC," when in fact, its name is "FHI 360." SIGAR worked with Williams, Adley & Company-DC LLP to remedy the error, and reissued our report on December 11, 2019.



DECEMBER  
2019

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On May 11, 2016, the U.S. Agency for International Development (USAID) awarded FHI 360 a 5-year, \$75,503,848, cost-plus-fixed-fee contract to support USAID's Initiative for Hygiene, Sanitation, and Nutrition. The contract's objective is to improve the nutritional status of women of reproductive age and children younger than 5 years old. USAID modified the contract four times to reflect changes in contract terms, key personnel, and the work plan, but did not change the total funding or period of performance.

SIGAR's financial audit, performed by Williams, Adley & Company—DC LLP (Williams Adley), reviewed \$13,010,905 charged to the contract from May 11, 2016, through May 10, 2018. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in FHI 360's internal controls related to the contract; (2) identify and report on instances of material noncompliance with the terms of the contract and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether FHI 360 has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of FHI 360's Special Purpose Financial Statement (SPFS). See Williams Adley'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 Williams Adley did not comply, in all material respects, with U.S. generally accepted government auditing standards.

December 2019

## USAID's Initiative for Hygiene, Sanitation, and Nutrition in Afghanistan: Audit of Costs Incurred by FHI 360

SIGAR 20-12-FA

### WHAT THE AUDIT FOUND

Williams Adley identified one significant deficiency and two deficiencies in FHI 360's internal controls, and two instances of noncompliance with the terms of the contract, applicable laws, and regulations. For example, Williams Adley found that from October 2016 through October 2017, FHI 360 paid employees medical, food, and transportation allowances in excess of the company's established policies.

Because of these internal control deficiencies and instances of noncompliance, Williams Adley identified \$7,046 in questioned costs, consisting of \$6,941 in unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval in accordance with the contract and—and \$105 in ineligible costs—costs prohibited by the contract, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$77	\$5,075	\$5,152
Indirect Costs	\$28	\$1,866	\$1,894
<b>Total Costs</b>	<b>\$105</b>	<b>\$6,941</b>	<b>\$7,046</b>

Williams Adley identified one prior audit with four findings and recommendations that could have a direct and material effect on the SPFS. The auditors concluded that FHI 360 had taken adequate corrective action on all four findings.

Williams Adley issued an unmodified opinion on FHI 360'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 contracting officer at USAID:

- 1. Determine the allowability of, and recover, as appropriate, \$7,046 in questioned costs identified in the report.**
- 2. Advise FHI 360 to address the report's three internal control findings.**
- 3. Advise FHI 360 to address the report's two noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

December 11, 2019

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

Mr. Peter Natiello  
USAID Mission Director for Afghanistan

We contracted with Williams, Adley & Company–DC LLP (Williams Adley) to audit the costs incurred by FHI 360 under a U.S. Agency for International Development (USAID) contract to support the Initiative for Hygiene, Sanitation, and Nutrition.<sup>1</sup> The contract's objective is to improve the nutritional status of women of reproductive age and children younger than 5 years old. Williams Adley reviewed \$13,010,905 in costs charged to the contract from May 11, 2016, through May 10, 2018. Our contract with Williams Adley required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$7,046 in questioned costs identified in the report.**
- 2. Advise FHI 360 to address the report's three internal control findings.**
- 3. Advise FHI 360 to address the report's two noncompliance findings.**

The results of Williams Adley's audit are discussed in detail in the attached report. We reviewed it 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 FHI 360's Special Purpose Financial Statement. We also express no opinion on the effectiveness of FHI 360's internal control or compliance with the contract, laws, and regulations. Williams Adley is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Williams Adley 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-145)

---

<sup>1</sup> The contract number is AID-306-C-16-00007.

**OFFICE OF THE  
SPECIAL INSPECTOR GENERAL FOR  
AFGHANISTAN RECONSTRUCTION**

Audit F-145

**Financial Audit of Costs Incurred**

by

**FHI 360**

Under

Contract Number AID-306-C-16-00007

For the Period

**May 11, 2016 through May 10, 2018**

Submitted by



## Table of Contents

Transmittal Letter.....	i
Summary .....	1
Background.....	1
Work Performed.....	2
Objectives.....	2
Scope .....	2
Methodology .....	3
Summary of Results.....	4
Summary of Management’s Comments .....	5
Independent Auditor’s Report on the Special Purpose Financial Statement .....	7
Special Purpose Financial Statement .....	9
Notes to the Special Purpose Financial Statement .....	10
Notes to the Questioned Costs Presented on the Special Purpose Financial Statement .....	12
Independent Auditor’s Report on Internal Control.....	13
Independent Auditor’s Report on Compliance .....	15
Schedule of Findings and Questioned Costs .....	17
Finding 2019-01: Overpayment of Employee Allowances .....	17
Finding 2019-02: Untimely Correction of General Ledger Postings.....	21
Finding 2019-03: Misapplication of Labor Costs and Inventory Records.....	23
Prior Audit Report Recommendations and Current Status.....	26
Appendix A – Management’s Response to the Findings and Recommendations .....	28
Appendix B – Auditor’s Response to Management Comments.....	30



### Transmittal Letter

October 4, 2019  
Board of Directors  
FHI 360  
359 Blackwell Street, Suite 200  
Durham, NC 27701

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

We hereby provide to you our final report, which reflects results from the procedures we completed during our audit of the FHI 360 contract number AID-306-C-16-00007 with the United States Agency for International Development (USAID) to support the Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) activity.

Within the pages that follow, we provide a summary of the work performed. Following the summary, we provide our Report on the Special Purpose Financial Statement, Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary, Report on Internal Control or Report on Compliance.

When preparing our reports, we considered comments, feedback and interpretations provided by FHI 360 and SIGAR, in writing and orally, throughout the audit. FHI 360's responses to the audit reports 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 FHI 360 contract.

Sincerely,

A handwritten signature in blue ink that reads 'Jocelyn Hill'.

Jocelyn Hill, CPA  
Partner

# Summary

## Background

On May 11, 2016, USAID awarded FHI 360 a \$75.5 million, five-year (closeout of May 10, 2021), cost plus-fixed fee contract (AID-306-C-16-00007) to support the Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) project in Afghanistan. The contract was modified four times, with no changes to total funding or the period of performance (see table below).

**Table 1: FHI 360 Contract with Modifications**

Contract Activity	Date	Purpose
Base Year Award	May 11, 2016	Initial contract
Modification 1	August 15, 2016	Modification to contract terms.
Modification 2	December 20, 2016	Key personnel changes
Modification 3	May 3, 2017	Key personnel changes
Modification 4	January 4, 2018	Key personnel update and revision to work plan

The IHSAN project’s goal is to improve the nutritional status of women of reproductive age and children less than five years old, with a focus on the first 1,000 days (conception to 24 months of age). The expected outcomes of IHSAN are to decrease stunting (impaired growth and development in young children) by at least five percent over five years and reduce anemia among women of reproductive age by at least ten percent. The project’s objectives are to:

- Enhance capacity to institutionalize nutrition programs
- Increase adoption of optimal nutrition and hygiene behaviors at community and household levels, and
- Increase availability of nutrition, hygiene, and sanitation services and products.

Due to poor water, sanitation and hygiene (WASH) practices, FHI 360 must expand certain critical activities to improve nutrition outcomes under the IHSAN project. These activities include: availability of safe water at the household level; adoption of hand-washing practices during critical times (such as during feeding infant and young children and after urinating or defecating); food preparation and storage; and safe disposal of feces, including child feces.

At the national level, FHI 360 provides technical assistance to the existing Afghan government structures, such as the Ministry of Public Health and Ministry of Rural

Rehabilitation and Development, and at the provincial level with Provincial Rural Rehabilitation and Development Offices and Community Development Councils. FHI 360 must carry out activities in at least ten provinces, namely Farah, Nuristan, Kunar, Paktia, Ghor, Nangarhar, Badghis, Bamyán, Badakshan and Samangan.

## Work Performed

Williams, Adley & Company-DC, LLP (Williams Adley) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to audit costs incurred under USAID contract AID-306-C-16-00007 and associated modifications awarded to FHI 360 as indicated in the table above. Our audit procedures covered \$13,010,905 in total costs incurred and fees for the period from May 11, 2016 through May 10, 2018.

## Objectives

The following are the objectives of the audit defined by SIGAR:

### Audit Objective 1 - Special Purpose Financial Statement (SPFS)

Express an opinion on whether FHI 360's SPFS for the 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 award and generally accepted accounting principles or other comprehensive basis of accounting.

### Audit Objective 2 - Internal Controls

Evaluate and obtain a sufficient understanding of FHI 360's internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

### Audit Objective 3 – Compliance

Perform tests to determine whether FHI 360 complied, in all material respects, with the 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.

### Audit Objective 4 - Corrective Action on Prior Findings and Recommendations

Determine and report on whether FHI 360 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 audit included the USAID contract AID-306-C-16-00007 and related modifications executed for revenues applied to and costs incurred during the period between May 11, 2016 and May 10, 2018, as reported on the SPFS. The audit was limited to those matters pertinent to the contract that have a direct and material effect on the SPFS and included

an evaluation of the presentation, content and records supporting the SPFS. The following areas were included within the audit program for detailed evaluation:

- i. Administrative Procedures and Fraud Risk Assessment
- ii. Budget Management
- iii. Cash Management
- iv. Disbursement and Financial Reporting
- v. Procurement and Inventory Management

Our audit was conducted to form an opinion on the SPFS in accordance with the Statement presentation requirements in Note 2. Therefore:

- The Transmittal Letter to SIGAR and the information presented in the Table of Contents and Summary are presented for informational and organizational content purposes and are not required parts of the SPFS. Such information has not been subject to the auditing procedures applied in the audit of the SPFS, and accordingly, we do not express an opinion or provide any assurance on it.
- The scope of our audit does not include procedures to verify the efficacy of the USAID funded program, and accordingly, we do not express an opinion or provide any assurance on it.

## Methodology

We conducted our audit in accordance with generally accepted auditing standards, and generally accepted government auditing standards as published in the Government Accountability Office's *Government Auditing Standards*. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the SPFS of the costs incurred under the award are free of material misstatement. An audit includes:

- Obtaining an understanding of FHI 360's internal controls related to the award, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment.
- Examining, on a test basis, evidence supporting the amounts and disclosures presented in the Statement.

To meet the audit objectives, we prepared an audit plan for the engagement.

For audit objective 1, we reviewed transactions for the period from May 11, 2016 through May 10, 2018, subsequent events, and information that may have a significant impact on the SPFS for the audit period. We used both statistical and judgmental sampling techniques to select direct labor, subcontractor agreement/consultant costs, travel, and other direct cost samples to test for allowability of incurred costs, and reviewed procurement records to determine cost reasonableness. The scope of our audit reflects our assessment of control risk and includes tests of incurred costs to provide a reasonable basis for our opinion.

For audit objective 2, we reviewed applicable background materials, including cooperative agreements, contracts, auditee financial progress reports, USAID regulations, SIGAR's Afghanistan alert letters, audit reports and special program reports, and auditee single audits, performance audits and/or financial statement audits as made available and provided. We also reviewed business processes, policies and procedures and made inquiries of management to ascertain the level of controls over those processes. We validated the controls through review of invoice sign-offs, confirming use of purchase orders, procurement committees and open competition to mitigate the potential for fraud, waste and abuse, and verifying separation of duty activities such as approving, processing and payment of payroll and non-labor costs. We conducted our review to gain a thorough understanding of the control environment. We assessed the control risk for sampling and testing purposes.

For audit objective 3, we performed compliance testing including, but not limited to: determination of allowable costs under Federal Acquisition Regulations (FAR) and USAID Acquisition Regulations (AIDAR) cost principles; validation of indirect cost calculations pursuant to a provisional or final negotiated indirect cost rate agreement; testing cash management for funding to ensure it does not exceed the program's immediate cash needs requirements and confirm excess cash has been returned to the US Government; verify incurred cost eligibility; confirm equipment and real property management and disposal in accordance with an approved disposition plan; ensure expenditures comply with the period of availability of the Federal funds; ensure that procurement activities comply with full and open competition standards or provide justification for noncompetitive bids when applicable, and that suspension and debarment of the subcontractor or subrecipient was considered in the award decision; program income is reported and accounted for separately from donor funds; and financial reporting is accurate, timely and complete. In addition, we performed testing to assess and determine any potential fraud, abuse and illegal acts.

For audit objective 4, if prior audits indicated a need for corrective action to be taken by FHI 360, we ensured through inquiry, observation and testing whether the necessary steps were taken to adequately address those findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives.

## **Summary of Results**

We issued an unmodified opinion on FHI 360's Special Purpose Financial Statement. Our audit of the costs incurred by FHI 360 also identified the following matters:

We identified \$7,046 in total questioned costs because the costs were either ineligible or unsupported. Ineligible costs are those costs that are deemed unallowable in accordance with the terms of the contract and applicable laws and regulations or are unnecessary or unreasonable expenditure of funds. Unsupported costs are those costs for which FHI 360 was unable to provide sufficient supporting documentation, including evidence of proper approvals, for Williams Adley to determine the accuracy and allowability of the costs.

As a result of our audit procedures we identified three findings — one significant deficiency and two deficiencies in internal control – and two instances of noncompliance with the terms and conditions of the contract. Where internal control and noncompliance findings pertained to the same matter, they were consolidated within a single finding.

**Summary of Findings and Questioned Costs**

Finding	Description	Classification	Ineligible Costs	Unsupported Costs	Total Questioned Costs
2019-01	Overpayment of Employee Allowances	Significant Deficiency in Internal Control and Noncompliance	\$0	\$6,941	\$6,941
2019-02	Untimely General Ledger Adjusting Entries	Internal Control Deficiency	\$0	\$0	\$0
2019-03	Misapplication of Labor Costs and Inventory Records	Internal Control Deficiency and Noncompliance	\$105	\$0	\$105
<b>Totals</b>			<b>\$105</b>	<b>\$6,941</b>	<b>\$7,046</b>

We also considered whether information we obtained during our audit 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.

**Status of Prior Audit Findings**

We requested prior audit reports, reviews and assessments pertinent to FHI 360’s activities under the contract. We identified one prior audit report that was assessed for purposes of determining if there were findings and corrective actions requiring follow-up. We performed testing of similar matters during our current audit and determined that the prior audit findings that could have a material effect on the SPFS or other financial data significant to our audit objectives were adequately addressed. Please see Prior Audit Report Recommendations and Status section on page 26 for a detailed description of the prior audit findings and status.

**Summary of Management’s Comments**

The following represents a summary of the responses provided by FHI 360 to the findings identified in this report. The complete responses received may be found in Appendix A to this report.

FHI 360 agreed with findings 2019-02 and 2019-03 and disagreed with finding 2019-01. Management contends that its failure to update its internal policy on the allowance benefits was an administrative oversight and that the allowances were fair and reasonable, supported by USAID concurrence, and all actual payments were supported by relevant documents.

**Attachments**

The auditor's reports are supplemented by two attachments:

- Appendix A – Management's Response to the Findings and Recommendations
- Appendix B – Auditor's Response to Management Comments



## **Independent Auditor's Report on the Special Purpose Financial Statement**

Board of Directors  
FHI 360  
359 Blackwell Street, Suite 200  
Durham, NC 27701

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

We have audited the Special Purpose Financial Statement ("the Statement") of FHI 360 and the related notes to the Statement, with respect to the United States Agency for International Development (USAID) contract number AID-306-C-16-00007 for the period May 11, 2016 through May 10, 2018.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on this 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 Statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, we considered internal controls relevant to FHI 360's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FHI 360'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 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 Statement referred to above presents fairly, in all material respects, the revenues earned, costs incurred, and reimbursed, and balances for the indicated period in accordance with the terms of the agreement and in conformity with the basis of accounting described below.

### ***Basis of Accounting***

We draw your attention to Note 2 of the Statement, which describes the basis of accounting. As described in Note 2 of the Statement, the Statement is prepared by FHI 360 on the basis of accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued our reports dated June 5, 2019, on our consideration of FHI 360's internal control over financial reporting and our tests of its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this Independent Auditor's Report in considering the results of our audit.

### ***Restriction on Use***

Our report is intended solely for the information and use of FHI 360, USAID and 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.

*Williams, Adley & Company - DC, LLP*  
Washington, D.C.  
June 5, 2019

**FHI 360**  
**Special Purpose Financial Statement**  
 May 11, 2016 to May 10, 2018

Revenues	Budget	Actual	Questioned Cost		Notes <sup>1</sup>
			Ineligible	Unsupported	
Contract AID-306-C-16-00007	\$33,205,338	\$13,010,905			
<b>Total Revenue</b>	<b>\$33,205,338</b>	<b>\$13,010,905</b>			<b>5</b>
<b>Costs Incurred</b>					
<b>Costs:</b>					<b>7, 8</b>
Direct Costs	\$24,401,690	\$10,173,021	\$77	\$5,075	<b>A, B</b>
Grants Under Contract Security	\$3,200,000	-			
Indirect Costs	\$1,138,347	\$682,612			
	\$2,766,886	\$1,773,175	\$28	1,866	<b>A, B</b>
<b>Costs Incurred</b>	<b>\$31,506,923</b>	<b>\$12,628,808</b>	<b>\$105</b>	<b>\$6,941</b>	
Fixed Fee	1,698,415	382,097			
<b>Total Costs Incurred and Fixed Fee</b>	<b>\$33,205,338</b>	<b>\$13,010,905</b>			
<b>Outstanding Balance</b>	<b><u>\$0</u></b>	<b><u>(\$0)</u></b>			<b>9</b>
<b>Total Questioned Cost</b>				<b>\$7,046</b>	

<sup>1</sup> The Notes to the Special Purpose Financial Statement are an integral part of the Statement.

FHI 360

**Notes to the Special Purpose Financial Statement<sup>2</sup>****Note 1. Basis of Presentation**

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Award Number AID-306-C-16-00007 for the Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) for the period May 11, 2016, through May 10, 2018. Because the Statement presents only a selected portion of the operations of the FHI 360, it is not intended to and does not present the financial position, changes in net assets, or cash flows of FHI 360. 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 contract. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Note 2. Basis of Accounting**

Expenditures reported on the Statement are reported on an accrual basis of accounting in accordance with generally accepted accounting principles. Such expenditures are recognized following the cost principles contained in 48 CFR, Part 31, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3. Foreign Currency Conversion Method**

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. For local currency transactions processed in country/project offices, the dollar amount of the currency gain/loss is distributed to projects in the portfolio proportional to the total expenditures during that month. For local currency transactions processed in the U.S. the foreign exchange is allocated on a per project basis for each local currency balance sheet account.

**Note 4. Currency**

All amounts presented are shown in U.S. dollars.

**Note 5. Revenues**

Revenues on the Statement represent the amount of funds to which FHI 360 is entitled to receive from USAID for allowable, eligible costs incurred under the contract during the audit period.

---

<sup>2</sup> The Notes to the Special Purpose Financial Statement are the responsibility of FHI 360's management.

**Note 6. Revenue Recognition**

Revenue is recorded upon incurring an expense, or delivery of the service, assuming all other revenue recognition criteria have been met.

**Note 7. Costs Incurred by Budget Category**

The budget categories presented and associated amounts reflect the line items contained within the final, approved contract budget.

**Note 8. Reconciliation to Invoiced Amounts**

The last invoice submitted to USAID that is within the audit period is as of April 30, 2018. Expenses incurred for May 1 – 10, 2018 were invoiced after the end of the audit period and have been added to the Statement.

**Note 9: Balance**

The balance presented on the Statement represents the difference between the revenues earned under the contract and the actual costs incurred plus fixed fee amount. An amount greater than zero would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than zero would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

## FHI 360

**Notes to the Questioned Costs Presented on the Special Purpose Financial Statement**<sup>3</sup>**Note A: Questioned Cost – Overpayment of Employee Allowances**

Finding 2019-01 questions \$6,941 in costs that FHI 360 paid to local employees for medical, food and transportation allowances, which exceeded the allowable amounts per FHI 360 policy. The questioned costs consist of \$5,075 in unsupported direct costs and \$1,866 in unsupported indirect costs.

**Note B: Questioned Cost – Misapplication of Labor Costs and Inventory Records**

Finding 2019-03 questions \$105 in costs that FHI 360 incurred for labor used to purchase items for a project other than the IHSAN project. The questioned cost consists of \$77 in ineligible labor costs and \$28 in ineligible indirect costs.

---

<sup>3</sup> Alphabetic notes to the questioned costs presented on the Special Purpose Financial Statement were developed by and are the responsibility of the auditor



### Independent Auditor's Report on Internal Control

Board of Directors  
FHI 360  
359 Blackwell Street, Suite 200  
Durham, NC 27701

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

We have audited the Special Purpose Financial Statement ("Statement") and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by FHI 360, under the United States Agency for International Development (USAID) contract number AID-306-C-16-00007 for the period May 11, 2016 through May 10, 2018. We have issued our report thereon dated June 5, 2019 with an unmodified opinion.

#### ***Internal Control over Financial Reporting***

In planning and performing our audit of the Statement, we considered FHI 360's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of FHI 360's internal control. Accordingly, we do not express an opinion on the effectiveness of FHI 360's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of FHI 360's Statement 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. Given these

limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify one significant deficiency in internal control that is included as Finding 2019-01 and two deficiencies in internal control as Findings 2019-02 and 2019-03 in the attached Schedule of Findings and Questioned Costs.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of FHI 360's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FHI 360's internal control. Accordingly, this communication is not suitable for any other purpose.

### ***Restriction on Use***

This report is intended for the information of FHI 360, USAID, and the Special Inspector General for Afghanistan Reconstruction. 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.

*Williams, Adley & Company-DC, LLP*  
Washington, D.C.  
June 5, 2019



### Independent Auditor's Report on Compliance

Board of Directors  
FHI 360  
359 Blackwell Street, Suite 200  
Durham, NC 27701

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

We have audited the Special Purpose Financial Statement ("Statement") and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by FHI 360 under United States Agency for International Development (USAID) contract number AID-306-C-16-00007 for the period May 11, 2016 through May 10, 2018. We have issued our report thereon dated June 5, 2019 with an unmodified opinion.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether FHI 360's Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We identified two instances of noncompliance in the payment of payroll benefits that exceeded FHI 360's policy on allowable benefits and labor costs incorrectly charged to the IHSAN project, which, in our judgment, were not material to the Statement. These issues are reported as Findings 2019-01 and 2019-03 in the Schedule of Findings and Questioned Costs.

***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 FHI 360's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FHI 360's compliance. Accordingly, this communication is not suitable for any other purpose.

***Restriction on Use***

This report is intended for the information of FHI 360, USAID, and the Special Inspector General for Afghanistan Reconstruction. 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.

*Williams, Adley & Company - DC, LLP*  
Washington, D.C.  
June 5, 2019

### Schedule of Findings and Questioned Costs

#### Finding 2019-01: Overpayment of Employee Allowances

**Nature of Finding:** Significant Deficiency in Internal Control and Noncompliance

**Condition:** Our payroll tests, covering 4 of 25 total payroll months and 45 of 66 total employees, found FHI 360 paid medical, food and transportation allowances in excess of the FHI 360 policy's allowed amounts. In response to our inquiry, FHI 360 informed us that for 13 pay periods, from October 2016 through October 2017, they paid all Afghan employees (between 15 and 34 employees in any given month) allowances of 5,785 AFN, which exceeded the internal policy's allowed amounts - 400 AFN excess for medical allowances and 685 AFN excess for miscellaneous allowances for each employee. Our estimate of this overpayment is presented below.

Payroll Period	No. of Staff	Medical Allowance Overpayment in AFN (1)	Miscellaneous (Food, Transportation) Allowance Overpayment in AFN (2)	Total Overpayment in AFN (3)	Foreign Exchange Rate (4)	Estimated Direct Cost Overpayment in USD	Associated Indirect Cost Overpayment in USD (5)	Total Estimated Questioned Cost in USD
9/22/2016-10/21/2016	15	400	685	16,275	65.76	\$247.51	\$91.01	\$338.52
10/22/2016-11/20/2016	15	400	685	16,275	66.61	244.34	89.84	334.18
11/21/2016-12/20/2016	19	400	685	20,615	66.72	308.96	113.61	422.57
12/21/2016-1/19/2017	20	400	685	21,700	66.73	325.20	119.57	444.77
1/20/2017-2/20/2017	20	400	685	21,700	66.70	325.32	119.62	444.94
2/21/2017-3/20/2017	20	400	685	21,700	66.60	325.81	119.81	445.62
3/21/2017-4/21/2017	22	400	685	23,870	67.50	353.63	130.03	483.66
4/22/2017-5/22/2017	26	400	685	28,210	68.22	413.52	152.05	565.57
5/23/2017-6/22/2017	30	400	685	32,550	67.33	483.42	177.76	661.18
6/23/2017-7/22/2017	31	400	685	33,635	67.70	496.79	182.67	679.46
7/23/2017-8/22/2017	34	400	685	36,890	67.97	542.71	199.55	742.26
8/23/2017-9/22/2017	30	400	685	32,550	67.82	479.95	176.48	656.43
9/23/2017-10/22/2017	33	400	685	35,805	67.81	528.02	194.15	722.17
<b>Total Estimated Questioned Cost</b>						<b>\$5,075.18</b>	<b>\$1,866.15</b>	<b>\$6,941.33</b>

(1) Represents the difference between actual allowance paid and policy allowance (3,250-2,850 Afghanis [AFN])

(2) Represents the difference between actual allowance paid and policy allowance (5,785-5,100 AFN)

- (3) Medical +Transportation/Miscellaneous times Number of staff in AFN
- (4) Calculations are based on the historical exchange rate for Afghani (AFN) to United States Dollars (USD) using the rate for the last day of each month as published by oanda.com
- (5) Direct Cost Overpayment in USD times G&A rate of 36.77%

**Criteria:** Per 48 CFR § 31.201-2, Determining Allowability.

“(a) a cost is allowable only when the cost complies with all of the following requirements:  
(1) reasonableness...(4) terms of the contract...”

(c) When contractor accounting practices are inconsistent with this subpart 31.2, costs resulting from such inconsistent practices in excess of the amount that would have resulted from using practices consistent with this subpart are unallowable.”

Further, under §31.201-3, Determining Reasonableness, states, in part, “(a)...If an initial review of the facts results in a challenge of a specific cost by the contracting officer or contracting officer’s representative, the burden of proof shall be upon the contractor to establish that such cost is reasonable. (b) What is reasonable depends upon a variety of considerations and circumstances, including...(4) Any significant deviations from the contractor’s established practices.”

Under 48 CFR, §752.7007(a), “Direct compensation of the Contractor’s personnel will be in accordance with the Contractor’s established policies, procedures, and practices, and the cost principles applicable to this contract.”

Per the terms of the contract (Section H. 6) between USAID and FHI 360,

“Direct compensation of the Contractor’s personnel will be in accordance with the Contractor’s established policies, procedures, and practices, and the cost principles applicable to this contract.”

FHI 360’s policy (effective February 2016) detailed benefits / allowances to be paid to Afghanistan National Hire Employees. The policy stated that medical allowances of AFA 2,850 and miscellaneous allowances of AFA 5,100 was to be paid to employees monthly.



**ISLAMIC REPUBLIC OF AFGHANISTAN: BENEFITS SUMMARY**

This document summarizes the benefits offered to Afghanistan National Hire Employees. FHI 360 reserves the right to add to, modify, or delete any portion these benefits of employment at its sole discretion, in compliance with the labor laws of Afghanistan.

If any ambiguity or inconsistency exists between this summary document and the applicable labor laws of Afghanistan, the applicable labor laws of Afghanistan will prevail.

<b><u>Benefits</u></b>	<b><u>Summary</u></b>
<b>Medical Allowance</b>	FHI 360 will provide a monthly medical allowance to full-time employees in the amount of AFA 2,850 cover the cost of medical, dental and vision expenses for the employee and their dependents.
<b>Allowance</b>	<p>FHI 360 provides only those allowances that are required by local labor law or are necessary given conditions in the local labor market, and are in accordance with FHI 360 donor guidelines relevant to the country to which they pertain. Any changes in these allowances will be made in accordance with any revisions to the donor guidelines. These allowances may be subject to full taxation.</p> <p>In Afghanistan, employees will receive a miscellaneous allowance of 5,100 Afghani, payable monthly.</p>

**Cause:** In July of 2016, USAID issued a memorandum requesting implementing partners to support Afghan Government efforts to standardize the compensation scale for civil servants to a National Technical Assistance (NTA) salary scale. FHI 360 responded to this memorandum by evaluating the allowances paid to its Afghan employees and in October 2016 increased the medical, food and transportation allowances to their Afghan employees. However, FHI 360 did not update their policies to support the increased allowances until November of 2017, which meant that all allowance payments between October 2016 and October 2017 were not in compliance with their benefit policies in place at the time. There were no mitigating controls to ensure this change in employee compensation was documented and incorporated into policy documents in a timely manner. Finally, there were no procedures in place to ensure compliance with existing policies.

**Effect:** Although FHI 360 was responding to a directive from USAID concerning employee compensation, they charged \$6,941 more to the IHSAN project than allowed per FHI 360 benefit policies. Also, by not ensuring policies are updated prior to effecting changes in compensation, internal controls are weakened, which increase opportunities for waste, fraud, and abuse of US Government funds.

**Questioned Costs:** We determined \$6,941 in total unsupported questioned costs, which includes \$5,075 in direct costs and \$1,866 in indirect costs.

**Recommendation:** We recommend that FHI 360:

1. Develop and implement procedures that ensure benefit policies are updated and maintained in a timely manner.
2. Develop and implement procedures to ensure benefit policies are referred and adhered to prior to benefit payments.
3. Provide USAID with documentation, showing either the costs were allowable and in accordance with their internal policies or reimburse USAID \$6,941 for allowance payments in excess of FHI 360's policy.

**Finding 2019-02: Untimely Correction of General Ledger Postings****Nature of Finding:** Deficiency in Internal Control

**Condition:** FHI 360's general ledger erroneously includes items that are unrelated to the IHSAN project. Our review of all project general ledger entries found 12 erroneous items in total, ranging in dollar value from \$15.00 to \$3,783.48, and dating as far back as 2017. We noted that FHI 360 accurately identified these items as needing reclassification from the IHSAN project to other projects and properly excluded the charges from USAID billings. However, FHI 360 has not made correcting journal entries to remove these items from their IHSAN project's general ledger. Since these items were never charged to the IHSAN project we are not questioning any costs related to this finding.

**Criteria:** The FHI 360 Country Office Finance and Administration Manual, section 13.F, subsection 264.0 entitled, Reclass Subaward Entries in a Month Following the Original Entry, states that, "when an error has been made in journalizing a payment to or on behalf of the sub awardee, HQ involvement is required when the error is corrected in a month following the original entry. The Country Office journalizes the local currency correcting entry and HQ journalizes the US dollar correcting entry.

The Country Office must perform the following:

- 264.1 Journalize the correcting entry using the original local currency amount (See Accounting Entries paragraph below).
- 264.2 Email DC Operations Finance Analyst requesting that HQ enters the US dollar correcting entry. Provide the DC Operations Finance Analyst with the CO original entry and CO correcting entry details. Upon receipt of the request from the Country Office, HQ enters the US dollar correcting entry.
- 264.3 In [Subaward Tracking System], ensure to use the "Receipt" feature to capture the correcting entries amounts and reconcile to the [Subawardee Financial Reports]/Invoice Amount."

**Cause:** FHI 360 is not following policy 13.F subsection 264 which calls for correcting errors to be made in the month following the original entry. FHI 360 staff have not adhered to FHI 360's policy for the timely posting of correcting journal entries because management did not consistently enforce the policy.

**Effect:** Erroneous posting of costs to a project's general ledger, which are not removed through timely correcting journal entries, may result in erroneous billings to the US Government for costs that are not allocable to the project.

**Questioned Cost:** None.

**Recommendation:** We recommend that FHI 360:

1. Make correcting journal entries to remove the 12 items that are erroneously included in the IHSAN project's general ledger.

- 
2. Institute monthly supervisory reviews to ensure compliance with FHI 360's policy regarding correcting journal entries.

**Finding 2019-03: Misapplication of Labor Costs and Inventory Records****Nature of Finding:** Internal Control Deficiency and Noncompliance

**Condition:** FHI 360 inaccurately included inventory belonging to a different FHI 360 project in the IHSAN property records. Our testing of the entire FHI 360 inventory listing of 502 items for the IHSAN project identified 15 items that should be assigned to the Global Health Supply Chain (GHSC) project (another FHI 360 project funded by USAID) as presented in the table below. Personnel fully chargeable to the IHSAN project made the purchases on behalf of the GHSC project, using GHSC funds. FHI 360 stated that approximately 6 hours of IHSAN staff time was used for this procurement at a cost of \$105 (including indirect costs). As a result, we are questioning \$105 in costs associated with the FHI 360 employees' time spent purchasing the assets.

Item No.	Inventory Item	Exception Noted
IHSAN -000605	Laptop Computer Dell Latitude 7480	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000606	Laptop Computer Dell Latitude 7480	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000607	Laptop Computer Dell Latitude 7480	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000610	Monitor, Dell Flat	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000611	Monitor, Dell Flat	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000601	Docking station	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000602	Docking station	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000614	Samsung Galaxy Mobile J7	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000604	Hp Office Jet Pro 8710	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000603	Docking station	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000612	Samsung Mobile Phone B310	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000613	Samsung Mobile Phone B310	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000041	Dongle Huawei, Afghan Wireless	Should be labeled for GHSC Project per FHI 360 inventory records*
IHSAN - 000608	Dongle Huawei	Should be labeled for GHSC Project per FHI 360 inventory records
IHSAN - 000609	Dongle Huawei	Should be labeled for GHSC Project per FHI 360 inventory records

\*May be mislabeled and most likely is GHSC since there was no recognition of a PHQC project and equipment user worked on GHSC project.

**Criteria:** Under 48 CFR §31.201-2(d), Determining allowability, “A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements. The contracting officer may disallow all or part of a claimed cost that is inadequately supported.”

Under FHI 360 policy number 03015, section 08.A of Country Office Finance and Administration Manual, entitled Payroll: Time Sheet Management & Labor Cost Allocation,” the following requirements are discussed:

**“Labor Cost Allocation**

Country Office salaries and wages expenses are allocated at least monthly based on hours worked as indicated on the employee’s approved timesheet. Labor allocation hourly rate is determined for each employee based on the employee’s total pay divided by total hours worked.

Based on the hours worked as reported in the employee’s timesheet, each CO must calculate the percent of the employee’s salaries and wages to allocate to the charged ID Code(s).

**Labor Allocation Adjustments**

For many legitimate reasons, time sheet hours are adjusted after the salary has been allocated and journalized in the accounting records. After such occurrence, the adjusted time sheet and prior labor allocations must be reviewed to determine whether an adjusting accounting entry is necessary. It is extremely important that the employee’s allocable rate and hours are reflective of the final approved timesheet. Time sheets and allocation schedules are essential in substantiating labor amounts expensed to an award and are highly selected for review by internal and external review teams...”

**Cause:** Throughout the IHSAN project, FHI 360 was also operating the GHSC project. According to FHI 360, the GHSC project at the time did not have sufficient staff to carry out their own inventory procurement, so FHI 360 utilized IHSAN staff to procure the items. However, IHSAN staff did not allocate the time spent working on the GHSC procurement to the GHSC project. FHI 360 commented that IHSAN staff may have thought they were precluded from charging time to a project other than IHSAN. On this basis, we determined that employees were not properly trained to record or did not have access to all appropriate award identification codes for recording level of effort on different projects. FHI 360 also did not have a process in place to regularly review IHSAN’s inventory records and ensure all items recorded were only those purchased with IHSAN funds. Finally, we determined FHI 360 created their IHSAN project inventory list by identifying assets purchased by IHSAN project employees rather than using the assets’ funding source.

**Effect:** FHI 360's IHSAN inventory is inaccurate. Without sufficient review to ensure that inventory records correspond with a procurement action, FHI 360 cannot validate the completeness or accuracy of their inventory listings for all projects. Additionally, FHI 360 informed Williams Adley that it has credited the GHSC project \$105 that was overcharged by IHSAN, which will be reflected on the August 2019 invoice for IHSAN; and the inventory records will be adjusted to reflect the correct project ownership of the misclassified assets.

**Questioned Cost:** We determined a questioned cost of \$105, which includes \$77 for ineligible payroll costs expended procuring items for a non-IHSAN project, plus the associated indirect cost of \$28 based on a G&A rate of 36.77%.

**Recommendation:** We recommend that FHI 360:

1. Correct inventory records and provide confirmation to USAID that IHSAN inventory records are allocable to the IHSAN project.
2. Reimburse USAID for the time IHSAN staff spent procuring assets for that program, which is estimated at \$105.
3. Provide timesheet training to procurement staff, reinforcing the policy that time should be recorded for and charged to each project or program for which the employee performs work.
4. Ensure employees have access to all the job codes for which they perform work.
5. Adjust its policy to: (a) require inventory records be reviewed by a supervisor (or manager) at the time the items are being recorded as allocable and; (b) identify inventory items for inclusion in project records by the funding source used to procure the assets to ensure proper inventory recordkeeping.
6. Provide training to personnel responsible for maintaining inventory records to ensure adherence to the policy.

---

### Prior Audit Report Recommendations and Current Status

We reviewed one prior audit report pertaining to FHI 360's activities in Afghanistan. The report contained four findings and recommendations that could have a direct and material impact on the Special Purpose Financial Statement or other financial information significant to the audit objectives. We conducted follow-up procedures including discussion with management and performed testing of similar matters during our audit. We determined that none of the four issues were repeated, which indicates that adequate corrective action was taken. The report containing findings is:

1. SIGAR 19-30 Financial Audit, issued on April 3, 2019. USAID's Afghanistan University Support and Workforce Development Program: Audit of Costs Incurred by FHI 360.

The status of the findings with regards to our audit objectives is summarized below:

**Report: Financial Audit of Costs Incurred in Afghanistan by Family Health International (FHI 360) for Cooperative Agreement number AID-306-A-13-00009-00 for the period October 1, 2015 through December 31, 2017**

**Issue:** *Finding number 2018-01 – Subrecipient Monitoring Lacked Detailed Review of Non-Personnel Costs (Material Weakness and Non-Compliance).* The external auditor determined that FHI 360's review procedures for subrecipients did not include a detailed review of non-personnel costs to determine whether or not these costs were allowable and allocable to the program. As a result, the external auditor questioned \$654,868 as unsupported costs.

**Status:** USAID has yet not ruled on corrective actions it will accept for this finding, so the issue remains open. We tested expenditures of the major subcontracts for all required support as part of our audit and did not find that this issue was repeated.

**Issue:** *Finding number 2018-02 – One Non-Competitive Procurement Lacked Cost-Price Analyses (Significant Deficiency and Non-Compliance).* The external auditor determined that FHI 360 was unable to demonstrate that it had conducted required cost-price analyses to establish the reasonableness of the costs for one procurement, which resulted in \$1,350 in questioned costs.

**Status:** USAID has yet not ruled on corrective actions it will accept regarding this finding, so the issue remains open. We reviewed five major subcontracts for price reasonableness and determined that the entities were included as part of the initial proposal accepted by USAID. We determined that this issue was not repeated.

**Issue:** *Finding number 2018-03 – Delayed Journal Entry Approval (Significant Deficiency).* The external auditor determined that FHI 360 processed a journal entry to correct previously recorded expenditures, but the journal entry was not approved until two years after it was originally recorded.

**Status:** USAID has yet not ruled on corrective actions it will accept regarding this finding, so the issue remains open. FHI 360 reports that its Asia Pacific Regional Office has conducted refresher training to staff on the processing and timely approval of journal entries. We reviewed the general ledger and journal entries for the IHSAN project and matched the general ledger to the SPFS. Although our review of the general ledger for the IHSAN project showed that general ledger adjusting entries had not been posted to clear balances for costs not allocable to the IHSAN project, we did not find journal entries lacking approval. We determined that this finding has not been repeated.

**Issue:** *Finding number 2018-04 – Lack of Support for Draw Downs (Significant Deficiency).* The external auditor determined that FHI 360 could not produce documentation to demonstrate that it reviewed and approved each draw down for accuracy and that the requests were in line with its immediate cash needs.

**Status:** USAID has yet not ruled on corrective actions it will accept regarding this finding, so the issue remains open. FHI 360 reported that it now maintains copies of Project Status reports for each project in which funds are drawn down from its letter of credit as support for the amounts drawn down. For our audit, FHI 360 submitted invoices for payment instead of drawdowns since it was a contract and not a cooperative agreement. We reviewed the invoices and matched the amounts, including direct and indirect cost calculations, to the general ledger without exception. For these reasons, we determined that this issue has not been repeated.

---

**Appendix A – Management’s Response to the Findings and Recommendations**

September 25, 2019

Mr. Cordell Olive  
Principal, Audit and Assurance Practice  
Williams, Adley & Company – DC, LLP  
1030 15<sup>th</sup> Street, NW, Suite 350 West  
Washington, DC 20005  
Via E-mail: [colive@williamsadley.com](mailto:colive@williamsadley.com)

**SUBJECT: FHI 360 Draft report of Audit F-145 – FHI 360 Management Response**

Dear Mr. Olive:

FHI 360 appreciates the opportunity to respond to the findings and recommendations set forth in the SIGAR Audit F-145 of the Initiative for Hygiene, Sanitation, and Nutrition (IHSAN) activity and hope you will find our responses herein complete and sufficient to clear all questioned costs, as well as to close the findings relative to procedural improvements and staff training recommendations. As requested, this letter and its attachments:

- Describe the actions taken by FHI 360 to address internal control weaknesses and recommendations offered by the audit firm.

Please see more details about FHI 360’s activities in the attached document.

Sincerely,

Family Health International by  
Mark Wagner  
Director, Financial Management

**Attachments:**

- F-145 FHI Draft Report SIGAR approved - FHI 360 Detailed Management Response
- Attachment 1 – Reclassification
- Attachment 2 – Updated IHSAN Inventory
- Attachment 3 – Labor Reclassification

FHI 360 1825 Connecticut Ave, NW | Washington, DC 20009 USA  
T 1.202.884.8000 | F 1.202.884.8400 | [www.fhi360.org](http://www.fhi360.org)

**Finding 2019-01: Overpayment of Employee Allowances****Nature of Finding:** Significant Deficiency in Internal Control and Noncompliance**FHI 360 Management Response:**

FHI 360 respectfully disagrees with the finding and the questioned costs. Although the IHSAN project was delayed in updating the policy to incorporate changes to the national staff allowances, the adjusted rates have been determined fair and reasonable based on the changed market conditions, are supported by USAID concurrence, and all actual payments were supported by relevant documents such as timesheets and proof of payments. The time lag between using the adjusted allowance rates and updating the policy was an administrative oversight. To address the administrative oversight, FHI 360 will strengthen control over the policy update process and internal communication amongst team members. IHSAN management, in cooperation with FHI 360 Regional Office, will establish the policy review/update protocol, including timelines for each review and approval.

**Finding 2019-02: Untimely Correction of General Ledger Postings****Nature of Finding:** Deficiency in Internal Control**FHI 360 Management Response:**

FHI 360 agrees with the finding. The corrected journal entries to remove the unbilled costs from the IHSAN project's general ledger have been recorded in September 2019 (see Attachment 1 [Received by auditors but not included with this report]). Financial transactions and financial statements are reviewed on a monthly basis by the FHI 360 Regional Office Finance Manager. Staff training will be provided, to be completed by October 31, 2019, to ensure that corrections, if any, will be recorded within 3 months of finding the erroneous or questionable transactions.

**Finding 2019-03: Misapplication of Labor Costs and Inventory Records****Nature of Finding:** Internal Control Deficiency and Noncompliance**FHI 360 Management Response:**

FHI 360 agrees with the finding. The IHSAN inventory has been updated to exclude non-IHSAN assets (see Attachment 2 [Received by auditors but not included with this report]). In addition, responsible staff has been trained to track all assets based on the project code and ensure accuracy of charged code when any new assets are added to the IHSAN inventory. Moreover, the assets' physical check protocol will be updated to include finance team review of the correct project codes to ensure accuracy of records.

FHI 360 will reinforce the time allocation procedure with team members who support both IHSAN and non-IHSAN activities. The questioned labor costs related to this finding have been adjusted and re-allocated to the respective project (see Attachment 3 [Received by auditors but not included with this report]).

## Appendix B – Auditor’s Response to Management Comments

Williams Adley & Company-DC, LLP (Williams Adley) has reviewed FHI 360’s management response to the audit findings. In consideration of management views, we have included the following rebuttal to certain matters presented by FHI 360. A rebuttal has been included in those instances where management disagreed with the facts presented in the finding or otherwise did not concur with our recommendations. FHI 360 did not agree with Finding 2019-01. Williams Adley’s response to FHI 360’s management comments is as follows:

### **Finding 2019-01: Overpayment of Employee Allowances**

Management responded that it disagreed with the finding and questioned cost. FHI 360 acknowledged that the IHSAN project was delayed in updating the policy to incorporate changes to the national staff allowances. However, management stated that the adjusted rates were determined fair and reasonable based on the changed market conditions, and were supported by USAID concurrence, and all actual payments were supported by relevant documents such as timesheets and proof of payments. Management further contends that the time lag between using the adjusted allowance rates and updating the policy was an administrative oversight. To address the administrative oversight, FHI 360 proposes to strengthen control over the policy update process and internal communication amongst team members.

We acknowledge management’s position on this issue. However, the facts underlying this issue are not disputed by FHI 360, therefore, the finding and recommendation remain as stated.

## 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

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