

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR Financial Audit 13-4**

## USAID's Technical Support to the Central and Provincial Ministry of Public Health Project: Audit of Costs Incurred by Management Sciences for Health



**JUNE  
2013**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

June 13, 2013

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Administrator  
U.S. Agency for International Development

Jerry P. Bisson  
Acting Mission Director for Afghanistan  
U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by Management Sciences for Health (MSH) under USAID's cooperative agreement for the Technical Support to the Central and Provincial Ministry of Public Health Project.<sup>1</sup> The audit covered the period July 1, 2006, through December 31, 2012, and was performed by Mayer Hoffman McCann P.C. (MHM). It covered \$85,509,377 in expenditures.

The objective of the cooperative agreement was to improve the capacity of the Afghan Ministry of Public Health to plan, manage, supervise, monitor, and evaluate the scale of public access to basic and hospital health services. The program particularly focused on Afghan individuals of highest health risk.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of MSH's Fund Accountability Statement;<sup>2</sup>
- determine and report on whether MSH has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in MSH's financial internal controls; and
- identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations.

In contracting with an independent audit firm and drawing from the results of their audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed MHM's audit results and their supporting audit documentation and found them to be in accordance with generally accepted government auditing standards.

MHM found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the agreement. MHM identified 14 recommendations from prior audits or assessments for follow-up or corrective action. MSH did not agree with USAID/Afghanistan's July 2012 Regulatory Compliance Review for vetting and procurement that corrective actions were necessary for 12 of the findings and stated that there was no opportunity to remediate the other 2 findings because the related sub-awards had ended. MHM also reported one significant internal control deficiency and two instances of noncompliance, which prompted them to question a total of \$12,666 in costs. The \$12,666 in questioned

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<sup>1</sup> USAID's associate cooperative agreement no. 306-A-00-06-00522-00 to improve the capacity of the Afghan Ministry of Public Health.

<sup>2</sup> The Fund Accountability Statement is a special purpose financial statement that includes all revenues received, costs incurred, and any remaining balance for a given award during a given period.

costs included \$6,345 in costs which MHM deemed to be ineligible<sup>3</sup> and \$6,321 in costs that were unsupported.<sup>4</sup> See table 1 below.

**Table 1 - Summary of Questioned Costs**

Category	Questioned Costs Total	Ineligible	Unsupported
Other direct costs <sup>5</sup>	\$6345	\$6,345	
Equipment <sup>6</sup>	\$44		\$44
Salaries and wages <sup>7</sup>	\$6,277		\$6,277
Totals	\$12,666	\$6,345	\$6,321

Given the results of the audit, SIGAR recommends that the Mission Director of USAID/Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$12,666 in questioned costs (\$6,345 ineligible and \$6,321 unsupported) identified in the report.
2. Advise Management Sciences for Health to address the internal control finding identified in the report.
3. Advise Management Sciences for Health to address the two compliance findings identified in the report.
4. Resolve the 14 open recommendations to Management Sciences for Health from the July 7, 2012 USAID/Afghanistan's Regulatory Compliance Review for vetting and procurement.

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



John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

Enclosure

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<sup>3</sup> Ineligible costs are costs that the auditor has determined to be unallowable. These costs are recommended for exclusion from the Fund Accountability Statement and review by USAID to make a final determination regarding allowability.

<sup>4</sup> Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the propriety of costs was not made available.

<sup>5</sup> Questioned "Other Direct Costs" were expenses related to farewell parties, special holiday celebrations, etc.

<sup>6</sup> Questioned "Equipment" costs related to 11 computers for which there was no record of disposal.

<sup>7</sup> Questioned "Salaries and Wages" are expenses related to missing timesheets and payroll payment vouchers.

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For the Period July 1, 2006 through December 31, 2012

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## **SUMMARY**

### **Background**

The Office of Special Inspector General for Afghanistan Reconstruction (SIGAR) contracted with Mayer Hoffman McCann P.C. (MHM) to perform a Financial Audit of Costs Incurred under Associate Cooperative Agreement No. 306-A-00-06-00522-00 (Agreement) between Management Sciences for Health (MSH) and the United States Agency for International Development (USAID) for the period July 1, 2006 through December 31, 2012.

Effective July 1, 2006, USAID entered into an Associate Cooperative Agreement with MSH in the total estimated amount of \$23,999,520. At the time of award, USAID obligated \$2,168,091. The original period of performance was through June 30, 2010. This Agreement was modified 27 times (26 modifications and one letter extension of the period of performance) increasing the total amount to \$100,548,457 and extending the period of performance through April 30, 2013.

A cooperative agreement is an agreement in which one of the parties is the Federal government, in this case USAID. The Federal agency has substantial involvement with the recipient throughout the period of performance. In this case, substantial involvement included:

- Approval of annual work plans, and all modifications, which described the specific activities to be carried out;
- Designation of key positions and approval of changes in key personnel;
- Approval of monitoring and evaluation plans; and
- Involvement in monitoring progress toward the achievement of the objectives and expected results throughout the period of performance.

Under the Agreement, MSH worked with the Ministry of Public Health (MOPH) at the central and provincial level to build its capacity to perform its primary function of guiding the health system by establishing national health objectives that addressed national health priorities while ensuring equity and fostering sustainability. Technical Support to the Central and Provincial Ministry of Public Health (Tech-Serve) provided ongoing technical assistance in key public health technical areas and engaged both central and provincial managers in developing their management and leadership skills to focus on health results and accountability. The Tech-Serve Management Support for Provinces (MSP) initiative worked directly with provincial health directors and their teams to effectively articulate their health priorities, strategies to address health needs, to plan, implement the strategies and to monitor their activities.

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### **Objectives, Scope and Methodology**

#### **Objectives**

The objectives of the audit include the following:

- *Internal Controls* – Evaluate and obtain a sufficient understanding of MSH's internal controls related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether MSH complied, in all material respects, with the 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 Audit Recommendations* – Determine and report on whether MSH has taken adequate corrective action on prior external audit report recommendations or other external assessment recommendations.
- *The Fund Accountability Statement (FAS)* – Express an opinion on whether the FAS presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government and fund balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.

#### **Scope**

The scope of this audit included all costs incurred during the period July 1, 2006 through December 31, 2012 under Associate Cooperative Agreement No. 306-A-00-06-00522-00 between MSH and USAID. Our testing of overhead was limited to determining that the overhead was calculated using the correct final negotiated overhead rate or provisional overhead rate, as applicable for the given fiscal year, as approved by USAID.

#### **Methodology**

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

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#### Entrance Conference

An entrance conference was held via conference call on December 11, 2012 with representatives of MSH, SIGAR and USAID in attendance.

#### Planning

During our planning phase, we performed the following:

- Obtained an understanding of MSH;
- Reviewed awards to MSH;
- Reviewed regulations specific to the funding agency of the award;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques.

#### Internal Control Related to the FAS

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

#### Compliance with the Cooperative Agreement Requirements and Applicable Laws and Regulations

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

#### Corrective Action on Prior Audit Recommendations

We requested all prior audit reports and recommendations provided in order to evaluate the status of the prior audit recommendations by reviewing evidence of any corrective actions taken. See the Review of Prior Audit Recommendations subsection of this Summary for a status of applicable prior findings.

#### Fund Accountability Statement

In reviewing the FAS, we performed the following:

- Reconciled the costs on the FAS to the Agreement and general ledger;
- Traced receipt of funds to the accounting records; and



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- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement and reasonable.

#### **Pre-Exit Conference**

A pre-exit conference was held on March 12, 2013 with MSH to discuss the status of the audit. A final pending list consisting of items requiring follow-up and/or additional documentation from MSH was provided to MSH along with a due date for submission.

#### **Exit Conference**

An exit conference was held on March 13, 2013. Attendees included MSH, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

### **Summary of Results**

Our audit of the costs incurred by MSH under the Agreement with MSH identified the following matters:

#### **Questioned Costs**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations. Unsupported costs are those costs for which inadequate supporting documentation was provided for our review. A summary of questioned costs is as follows.

#### **Ineligible Costs**

- Entertainment cost related to farewell parties, special holiday celebrations, etc, totaling \$6,345 was charged to the Agreement as other direct costs. See Finding 2013-1 in the Findings and Responses section of this report. We were unable to determine whether there were other entertainment related costs claimed since the description of other expense transactions detail described in the general ledger does not clearly distinguish the nature of the expenses.

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#### **Unsupported Costs**

- Supporting documentation including timesheets and payroll payment vouchers for wages paid to three sampled local staff totaling \$6,277 could not be located. See Finding 2013-2 in the Findings and Responses section of this report.
- MSH disposed of 11 computers during the audit period; however, no documentation was provided to substantiate the disposition. The computers were acquired between 2008 and 2011. The fair market value of the computers is \$44, which has been questioned. See Finding 2013-3 in the Findings and Responses section of this report.

Total questioned costs as a result of our audit are as follows:

Ineligible costs	\$ 6,345
Unsupported costs	<u>6,321</u>
Total questioned costs	<u>\$12,666</u>

#### **Internal Control Findings**

Internal control findings are classified into three categories, deficiency, significant deficiency, and material weakness. 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 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. 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 FAS will not be prevented, or detected and corrected on a timely basis. A summary of the internal control findings noted as a result of the audit are as follows:

#### **Material Weaknesses**

No material weaknesses were reported.

#### **Significant Deficiencies**

The following significant deficiency was reported:

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Finding Number	Internal Control Finding – Significant Deficiency	Auditee's Concurrence
2013-2	During our testing of salaries and wages, MSH was unable to provide supporting documentation consisting of timesheets and payroll payment vouchers for three sampled local staff wages totaling \$6,277.	Agree

The complete management responses from MSH to these internal control findings can be found in the Findings and Responses section of this report.

### **Deficiencies**

No deficiencies were reported.

### **Compliance Findings**

As part of obtaining reasonable assurance about whether the FAS is free from material misstatement, we performed tests of its compliance with certain provisions of the Agreement and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of FAS. The results of our tests disclosed the following compliance findings as described Findings and Responses section of this report.

Finding Number	Compliance Finding	Auditee's Concurrence
2013-1	MSH included entertainment expenses in the amount of \$6,345 for welcome and farewell parties, as well as special holiday celebrations, as part of other direct costs. See Finding 2013-1.	Agree
2013-3	MSH was not able to provide evidence of the disposal of 11 pieces of equipment acquired under the Agreement resulting in questioned costs of \$44. See Finding 2013-3.	Agree

The complete management response from MSH to this compliance finding can be found in the Findings and Responses section of this report.

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#### **Review of Prior Audit Recommendations**

The following prior audit recommendations were reviewed as part of the scope of this audit. This presentation has been included in order to provide users of this report with background information that may prove beneficial to their analysis of this report's results. In responding to the findings included as part of our audit, MSH also included responses to the prior audit. These responses have been presented in this section as well, and also verbatim in Appendix A to this report. MSH disagreed with 12 of the 14 findings identified and did not accept that corrective action was necessary. MSH accepted 2 of the findings, but indicated that there was no opportunity to remediate them because the related subawards had ended. We have included the current status of each recommendation.

#### **Single Audit Reports**

MSH provided the seven prior years' Single Audit reports in accordance with Office of Management and Budget Circular A-133. No findings were noted.

#### **USAID Compliance Review of Tech-Serve Program (September 2012)**

USAID performed agreed-upon procedures related to regulatory compliance associated with vetting and procurement of the Tech-Serve Program. MSH indicated SIGAR recognized that the amount of time spent by the audit firm was not sufficient enough for a thorough compliance review and that it was part of a general and broad review of compliance across USAID's implementing partners. See Appendix B for MSH's responses to the findings in this report. The following findings were noted:

- 1) Vetting for the subaward to Handicap International FPTA-08-01 was not performed as per the Mission Order 201.04 requirement.
- 2) 2 CFR 175 Award Term for Trafficking in Persons was not included in award instruments for subawards.
- 3) Mission Order appendix F "Mandatory Clauses" III Restriction on Foreign Purchases was not updated in subaward instruments.
- 4) Screening on United Nations Security Sanctions (UNSC) in accordance with UNSC 1267 as per the requirement of Mandatory clauses was not carried out.
- 5) An organizational chart was not prepared and maintained.

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- 6) There was no formalized documented business continuity and disaster recovery plan in place.
- 7) Terms of Reference (ToRs) and minutes of the meetings of the Management Committee were not documented.
- 8) A variance analysis of the budget was not performed.
- 9) There was a lack of dual controls over bank authorized signatory.
- 10) There was a lack of controls over petty cash management.
- 11) There was no defined petty cash limit.
- 12) An external audit for the project has not been performed.
- 13) Procurements were not advertised.
- 14) Monitoring and evaluation (M&E) personnel were also a member of the bid evaluation committee.

Current Status: MSH disagreed with 12 of the 14 findings and did not accept that corrective action was necessary. MSH accepted the other two findings, but there was no opportunity to remediate them because the related sub-awards had ended. Their disagreements were based upon the following:

- Finding 1 – Mission Order 201.04, was not effective until May 9, 2011. The requirement was added to the Agreement through Modification 18 dated June 27, 2011. Handicap International, which was issued as a fixed-price grant, not contract, had a period of performance from October 1, 2008 through April 30, 2010. Therefore, this grant was completed before the vetting requirement was put in place.
- Finding 4 – Prior to issuing a contract, subcontract, subagreement, grant, or purchase order, it is MSH's policy to screen all vendors against the following Global Watch Lists:
  - Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons List (SDN);
  - Bureau Of Industry and Security (BIS);
  - Entity List;
  - Denied Persons List;
  - Unverified List;
  - Excluded Parties List System (EPLS);

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- Department of State;
- Nonproliferation Sanctions;
- Debarred Parties List;
- FBI Wanted Fugitives (FBI);
- United Nation Sanction List (UNSL);
- World Bank Ineligible Firms (WBNK); and
- Interpol.

The requirements for UNSC 1267 are met by the screening against the United Nations Sanctions List. Copies of all Clearance Verifications for subawards under Tech-Serve were made available to the reviewers at their request.

- Finding 5 – According to MSH corporate standards, all projects create and maintain organograms that are revised throughout the life of the project and activity implementation. The Tech-Serve organogram is on file in the MSH Afghanistan office, and has been included in previous communications with the USAID Health Team in Kabul.
- Finding 6 – According to MSH corporate standards, all critical financial and project data and documentation is stored on the MSH IT and computer network, and is backed up on a hard drive on a monthly basis. This monthly backup is stored at a separate location in case of fire or other catastrophic event. All accounting files (QuickBooks) are archived at the Headquarters, and as a worse case scenario, can be reinstalled with no more than a partial month of data requiring reentry. On a recurrent basis, the accounting team is required to backup the file onto external media (flash drive.) The default is after every 4th time opening the file.
- Finding 7 – The MSH Afghanistan Country Leadership Team (CLT) has an approved Terms of Reference that contains all of the recommended specifications. The CLT includes the Project Directors for each of the USAID projects in the office, and the job descriptions for each of the Project Directors include additional specifications of their roles and responsibilities in the CLT. Each individual project, including Tech-Serve, maintains internal management team meetings. These meetings, and the roles and responsibilities of the members, are specified in the job descriptions of each management position.
- Finding 8 – Tech-Serve had a Branding and Marking Plan approved by USAID. This Plan was used by the senior management team as a reference document on a regular basis, and it provided specific regulation to communications protocols and templates. The management team of the project conducted all external project communications in accordance with this approved Plan. All members of the staff who had need of this document had access to it and used it on a regular basis.

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- Finding 9 – According to MSH corporate standards, practices and procedures, each project conducts monthly and quarterly budget reviews in coordination with the home office support teams and the Chief Financial Officer. This information is then used to support regular workplan and workplan budget discussions with USAID on a minimum of an annual basis. Each project provides information to the MSH Finance Team to support cash requests for the following month, and the comprehensive request for all projects is sent to the home office. This request is detailed, and requests funds on an individual project basis at the level of major chart of account line items. The MSH home office team reviews these cash forecasts on an individual monthly basis, and over time. Actual expenditures are reconciled to cash forecasts and budgets of each individual project on a monthly basis, which feed into the budget reviews.
- Finding 10 – According to MSH corporate standards, policies and practices, the MSH Afghanistan bank account has three approved signatories in Kabul. This includes the MSH Country Representative, the COMU Director, and the Chief of Party of the Tech-Serve project. The bank account has two additional signatories in the home office to ensure access to the account if the three primary signatories are not available. For any individual transaction, only one signatory is required. However, that financial signatory authority is the implementation of final approvals that are regulated by a rigorous internal control system, including the approved technical signatory for any individual project. MSH requires strict segregation of duties among the roles of personal, programmatic, financial and fiduciary signatories. It is not feasible to have multiple financial signatories on each individual transaction. MSH Afghanistan maintains internal checks and balances that ensure that all financial transactions are controlled according to USAID rules and regulations. Each individual bank transaction is recorded by email communications to both the Kabul and home offices. Daily cash payments are reconciled against Finance team records. Finally, monthly expenditures are reviewed in the home office by the individual projects to ensure appropriate technical approvals were provided for each transaction.
- Finding 11 – MSH Afghanistan does not maintain a petty cash system. MSH Afghanistan recognizes the benefits of paying staff salaries through bank transfer, and continues to work with the staff to accept such a change. However, due to the confidence in the bank system, this has not been possible to date. MSH Afghanistan will continue to work with the staff to make this shift, when appropriate. MSH Corporate policy requires strict limits on cash expenditures. However, for the duration of tenure in Afghanistan, standards for and access to banking have been limited. Operating with a high level of cash has been necessary in order to operate the large programs conducted over the past ten years. Since the high risks have been well known, the cash management and accounting system in Afghanistan has been highly scrutinized, audited and overseen at both the local and international level.

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- Finding 12 – MSH conducts all audits required by project contracts/agreements, laws in the US or host country, or by other applicable regulations. The only requirement for external audits applicable to the Tech-Serve project is for an annual external audit of all MSH activities worldwide, to be performed by an independent auditor in accordance with OMB Circular A-133. This audit was performed in 2012 by MSH's independent external auditors, Tonneson & Co; and we expect it to be completed by December 31, 2012. This document is made available online and a summary is posted to the Federal Clearinghouse, but we would also be happy to provide copies to any USAID office upon request. There is no requirement for an additional external audit just of MSH's operations in Afghanistan, or of just the Tech-Serve project.
- Finding 13 – According to MSH corporate standards, practices and policies, and USAID regulations, all major procurements are competed and are communicated widely to ensure open competition. Major procurement Request for Proposals (RFPs) are communicated to vendors through the internet (ACBAR or other websites, email, etc.), or through telephone contact with a list of reliable vendors. Due to the local operational and security environment, MSH Afghanistan does not advertise procurement RFPs through the local print or television media. MSH has found that such advertisements increase the profile of MSH and its USAID projects, and opens these projects up to cases of fraud, corruption and potential security threats.
- Finding 14 – MSH Afghanistan rotates the membership of bid evaluation committees in order to ensure transparency in the selection of bidders, and to ensure best value to the US government. On this basis, each of the individual technical teams from any of the projects can expect to have team members called in to participate in the bid evaluations. The M&E personnel of Tech-Serve and the other projects do not have responsibilities or a mandate to monitor financial, procurement or other project support functions. Although they do monitor the performance of the project overall, this performance level is distant from the periodic participation in individual bid selections that there is not a conflict of interest between the two functions.

Corrective actions were implemented for Findings 2 and 3 as follows:

- Finding 2 – The Standard Provision “Trafficking in Persons (OCTOBER 2010)” was incorporated into the Agreement through Modification 7 on May 7, 2011. Three of the four subawards issued under Tech-Serve were issued prior to May 7, 2011. Two of the four subawards were completed prior to May 7, 2012. HPRO's FPTA 10-01 had a period of performance that ended June 15, 2011. The guidance in AAPD 11-01 is that “All AOs must include the provision “Trafficking in Persons” in all new awards and must modify existing awards to include the provision “Trafficking in Persons” at the “earliest practical opportunity”. There was no “practicable opportunity” to modify this subaward



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before its completion. MSH agreed that the "Trafficking in Persons" Standard Provision should have been incorporated into the HPRO FPTA 11-01 issued December 23, 2011.

- Finding 3 – Vetting, per Mission Order 201.04, was effective May 9, 2011. The requirement was added to the Agreement through Modification 18 dated June 27, 2011. Three of the four subawards were issued prior to May 9, 2011. Two of those had completion dates prior to May 9, 2011. The third had a completion date of June 15, 2011, before the issuance of Modification 18. MSH agreed that the "Mandatory Clauses" III Restriction on Foreign Purchases in Appendix F of Mission Order 201.04 should have been incorporated into the HPRO FPTA 11-01 issued December 23, 2011.

### **Summary of MSH Response to Findings**

The following represents a summary of the responses provided by MSH to the findings identified in this report, and clarifications it provided related to the recommendations from the prior audit.

#### **Response to Findings**

- Finding 2013-1: MSH considered the entertainment expenses to be meetings when recording the transactions in its accounting records. However, MSH accepts that the costs can be considered ineligible.
- Finding 2013-2: MSH acknowledged this finding due to documentation being misplaced at the beginning of the project and plans to review its practices surrounding document retention.
- Finding 2013-3: MSH responded that the items were scrapped and it was not possible to obtain receipts. In the future, they will seek an approved scrap merchant and obtain a receipt of disposal.

#### **Responses to Review of Recommendations from Prior Audit**

MSH did not believe the USAID Compliance Review of the Tech-Serve Program (September 2012) was thoroughly performed and requested that the full Compliance Review findings and responses be attached to this report to give the reader a complete picture. As requested by MSH, the responses to the findings in the Compliance Review have been included as Appendix B to this report.



## **Mayer Hoffman McCann P.C.**

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### **INDEPENDENT AUDITOR'S REPORT ON FUND ACCOUNTABILITY STATEMENT**

#### **Report on the Fund Accountability Statement**

We have audited the accompanying Fund Accountability Statement of Management Sciences for Health (MSH) under Associate Cooperative Agreement No. 306-A-00-06-00522-00 (Agreement) with the United States Agency for International Development (USAID) for the period July 1, 2006 through December 31, 2012.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the Fund Accountability Statement in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Fund Accountability 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 Fund Accountability 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 Fund Accountability Statement is free from material misstatement.

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

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Fund Accountability 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 Fund Accountability Statement referred to above present fairly, in all material respects, the respective revenue received and costs incurred by MSH under the Agreement for the period July 1, 2006 through December 31, 2012 in accordance with the basis of accounting as described in Note 2.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated May 2, 2013 on our consideration of MSH's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports are to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSH's internal control over financial reporting and compliance.

This report is intended for the information of Management Sciences for Health, USAID, and SIGAR. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

*Mayer Hoffman McCann P.C.*

Irvine, California  
May 2, 2013

# MANAGEMENT SCIENCES FOR HEALTH

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

## Fund Accountability Statement

For the Period July 1, 2006 through December 31, 2012

	Budget	Actual	Questioned Costs		Notes
			Ineligible	Unsupported	
Revenues:					
306-A-00-06-00522-00	\$ 100,548,457	\$ 85,474,135	\$ -	\$ -	(3)
Total revenues	100,548,457	85,474,135	-	-	
Costs incurred:					
Allowances	3,822,445	3,300,613	-	-	
Consultants	5,908,877	5,324,564	-	-	
Equipment	413,616	340,435	-	44	(4)
Other direct costs	44,445,456	35,480,933	6,345	-	(5)
Overhead	11,919,521	10,486,198	-	-	
Salaries and wages	23,167,918	21,337,769	-	6,277	(6)
Contracted services	434,819	483,397	-	-	
Training	4,727,867	3,872,019	-	-	
Travel and transportation	5,707,938	4,883,449	-	-	
Total costs incurred	100,548,457	85,509,377	6,345	6,321	
Outstanding fund balance (deficit)	\$ -	\$ (35,242)	\$ (6,345)	\$ (6,321)	(7)

See Notes to Fund Accountability Statement

## **MANAGEMENT SCIENCES FOR HEALTH**

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

Notes to Fund Accountability Statement

For the Period July 1, 2006 through December 31, 2012

### **(1) Status and Operation**

Management Sciences for Health, Inc. (MSH) was established in 1971 to support the development and application of management concepts in the fields of public health and preventive medicine throughout the world. MSH has U.S. offices in Cambridge, Massachusetts and Arlington, Virginia, and field offices in various developing countries.

The Internal Revenue Service has recognized MSH as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Section 501(c)(3) provides for the exemption of organizations that are organized and operated exclusively for religious, charitable, scientific, literary or educational purposes, and whose net earnings do not inure to the benefit of any private shareholder or individual.

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

#### **(a) Basis of Accounting**

The Fund Accountability Statement reflects the revenues received and expenses incurred under Associate Cooperative Agreement 306-A-00-06-00522-00 (Agreement). It has been prepared on the cash basis of accounting. Under the cash basis of accounting, revenues are recognized when received and expenses are recognized when paid.

#### **(b) Foreign Currency Conversion Method**

MSH converts its expenses that were paid in local currency (Afghanis) into reporting currency (U.S. Dollar) by applying a rolling average of conversion rates. The conversion rates used for the rolling average were comprised of the rates the bank used for transfers of money from MSH.

#### **(c) Questioned Costs**

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are deemed to not be allowable in accordance with the terms of the Agreement and applicable laws and regulations. Unsupported costs are those costs for which no or inadequate supporting documentation was provided.

## **MANAGEMENT SCIENCES FOR HEALTH**

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

Notes to Fund Accountability Statement

(Continued)

### **(3) Revenues**

As of December 31, 2012, MSH has received \$85,474,135 in payments from the United States Agency for International Development (USAID) under the Agreement.

### **(4) Equipment**

MSH reported equipment costs in the amount of \$340,435 for the period July 1, 2006 through December 31, 2012. During the period, MSH disposed of 11 computers for which there was no record of disposal. The fair market value of the disposed computers is \$44. This cost has been questioned. See Finding 2013-3 in the Findings and Responses section of this report.

### **(5) Other Direct Costs**

MSH reported other direct costs in the amount of \$35,480,933 for the period July 1, 2006 through December 31, 2012. Included in other direct costs were expenses related to farewell parties, special holiday celebrations, etc, totaling \$6,345. These costs are deemed ineligible in accordance with Office of Management and Budget (OMB) Circular A-122. See Finding 2013-1 in the Findings and Responses section of this report.

### **(6) Salaries and Wages**

MSH reported costs for salaries and wages in the amount of \$21,337,769 for the period July 1, 2006 through December 31, 2012. Supporting documentation including timesheets and payroll payment vouchers was not provided for three sampled local professional wages incurred in July 2006 in the amount of \$6,277. As such, these costs are deemed unsupported. See Finding 2013-2 in the Findings and Responses section of this report.

### **(7) Reconciliations**

An outstanding fund balance deficit of \$35,242 occurred due to timing of receipts as the Fund Accountability Statement is prepared on the cash basis. The deficit represents an amount that MSH had invoiced to USAID, but had not yet received as of December 31, 2012.



**Mayer Hoffman McCann P.C.**

**An Independent CPA Firm**

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

**Independent Auditor's Report**

Board of Directors  
Management Sciences for Health  
784 Memorial Drive  
Cambridge, Massachusetts 02139

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 Fund Accountability Statement of Management Sciences for Health (MSH) for the period July 1, 2006 through December 31, 2012, and the related Notes to the Fund Accountability Statement, and have issued our report thereon dated May 2, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the Fund Accountability Statement, we considered MSH'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 opinions on the Fund Accountability Statement, but not for the purpose of expressing an opinion on the effectiveness of MSH's internal control. Accordingly, we do not express an opinion on the effectiveness of MSH's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable 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. However, material weaknesses may exist that have not been identified. We did identify one deficiency in internal control, described in the accompanying Findings and Responses as item 2013-2 that we consider to be a significant deficiency.

### **MSH's Responses to Findings**

MSH's responses to the findings identified in our audit are described in the accompanying Findings and Responses. MSH's responses were not subjected to the auditing procedures applied in the audit of the Fund Accountability Statement and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the MSH's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose. This report is intended for the information of Management Sciences for Health, United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

*Mayer Hoffman McLane P.C.*

Irvine, California  
May 2, 2013





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

**Independent Auditor's Report**

Board of Directors  
Management Sciences for Health  
784 Memorial Drive  
Cambridge, Massachusetts 02139

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 Fund Accountability Statement of Management Sciences for Health (MSH) for the period July 1, 2006 through December 31, 2012, and the related Notes to the Fund Accountability Statement, and have issued our report thereon dated May 2, 2013.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether MSH's Fund Accountability 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. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Findings and Responses as items 2013-1 and 2013-3.

**MSH's Responses to Findings**

MSH's responses to the findings identified in our audit are described in the accompanying Findings and Responses. MSH's responses were not subjected to the auditing procedures applied in the audit of the Fund Accountability Statement and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of compliance and the result of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose. This report is intended for the information of Management Sciences for Health, United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

*Mayer Hoffman McLann P.C.*

Irvine, California  
May 2, 2013

## **MANAGEMENT SCIENCES FOR HEALTH**

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

Findings and Responses

For the Period July 1, 2006 through December 31, 2012

### **2013-1: Entertainment Expenses Included as Other Direct Costs**

#### **Condition:**

During our testing of other direct costs, we noted that Management Sciences for Health (MSH) included entertainment expenses in the amount of \$6,345 for welcome and farewell parties, as well as special holiday celebrations as part of this cost category.

#### **Criteria:**

OMB Circular A-122, Attachment B, Paragraph 14, states

*“Entertainment costs. Costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities) are unallowable.”*

#### **Cause:**

MSH considered these events to be meetings. The descriptions were used to describe the importance of the event and the Afghan culture requiring the opportunity to share food in recognition of the event itself.

#### **Effect:**

MSH incurred \$6,345 of entertainment costs that we deem to be ineligible per OMB Circular A-122 based upon the results of our testing. Reporting non-allowable entertainment costs as meetings raises concerns about the propriety of MSH's billing and specific concerns about the extent of such charges.

#### **Recommendation:**

1. We recommend that MSH return \$6,345 in ineligible costs to the United States Agency for International Development (USAID).
2. We recommend that MSH alert its employees to become more familiar with the requirements of OMB Circular A-122 and develop more effective policies and procedures to prevent ineligible costs from being claimed as reimbursable program costs.

## **MANAGEMENT SCIENCES FOR HEALTH**

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

Findings and Responses

(Continued)

### **2013-1: Entertainment Expenses Included as Other Direct Costs (Continued)**

#### **Management Response:**

MSH maintains that these questioned costs were actually incorrectly described in the accounting records and were not expended for entertainment purposes, but were related to formal project activities and meetings. However, we accept the decision to disallow these costs based on those misleading descriptions. MSH has provided guidance to its Finance Team in Kabul to ensure that meeting costs are clearly and correctly described in all accounting entries in the future. The Finance Team has also been reminded that, if MSH is considering incurring any entertainment costs, these are unallowable under US grants or contracts according to OMB A-122.

## **MANAGEMENT SCIENCES FOR HEALTH**

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

Findings and Responses

(Continued)

### **2013-2: Missing Source Documentation for Salaries and Wages**

#### **Condition:**

Supporting documentation including timesheets and payroll payment vouchers for wages paid to three sampled local professionals in July 2006 could not be located. The value of the missing documentation was \$6,277. .

#### **Criteria:**

OMB Circular A-122, Attachment A, Paragraph A.2 states in part:

“Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:...

g. Be adequately documented...”

#### **Cause:**

MSH could not locate the records as the timesheets and payroll payment vouchers for the three sampled individuals were misplaced.

#### **Effect:**

Failure to retain supporting documentation for costs incurred results in an inability for MSH to demonstrate that USAID funds were used for intended purposes and in accordance with the Associate Cooperative Agreement or applicable laws and regulations. The sampled costs were statistically selected. Had the results of our testing been extrapolated to the population, the total unsupported local professionals would be \$415,289.

#### **Recommendation:**

1. We recommend that MSH return \$6,277 in questioned salaries and wages, including fringe and overhead, to USAID.
2. We recommend that MSH improve its retention policies to ensure all required documentation to support costs incurred under the cooperative agreement is properly maintained.

## **MANAGEMENT SCIENCES FOR HEALTH**

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

Findings and Responses

(Continued)

### **2013-2: Missing Source Documentation for Salaries and Wages (Continued)**

#### **Management Response:**

MSH acknowledges that the selected documentation for three payments to Local Professional Staff in July, 2006 could not be located. These payments were made at the very beginning of the project and the related documentation was mistakenly shipped back to the home office for storage along with the previous project files and could not subsequently be traced. MSH found the files for the previous and subsequent months, but unfortunately the ones for that month were misplaced. MSH has clear documentation retention policies and will review its practices to ensure that all documents are properly stored and retrievable.

## MANAGEMENT SCIENCES FOR HEALTH

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

### Findings and Responses

(Continued)

#### **2013-3: Lack of Evidence for Disposal of Equipment**

**Condition:**

During our testing of equipment disposals, we noted that evidence of disposal was not retained for 11 out of 25 disposals tested. The disposals consisted of 11 computers with a cost of \$15,315 as follows:

<u>Asset No.</u>	<u>Description</u>	<u>Date Placed in Service</u>	<u>Cost</u>
0009	Dell laptop computer	7/13/08	\$ 1,470
7415	Dell laptop computer	8/9/10	1,470
5637	Dell laptop computer	4/1/08	1,375
5639	Dell laptop computer	4/1/08	1,375
5642	Dell laptop computer	4/1/08	1,375
5643	Dell laptop computer	4/1/08	1,375
5647	Dell laptop computer	4/1/08	1,375
5650	Dell laptop computer	4/1/08	1,375
6208	Dell laptop computer	10/16/11	1,375
0114	Dell laptop computer	4/1/08	1,375
6071	Dell laptop computer	4/1/08	<u>1,375</u>
Total			<u>\$15,315</u>

**Criteria:**

Leader with Associates Cooperative Agreement No.: GPO-A-00-05-00024-00 – Leadership Management and Sustainability (LMS) Project, Attachment 3, Paragraph C.16, *Title to and Care of Property (Cooperating Country Title)*(November 1985) states, in part:.

“(c) The recipient shall prepare and establish a program, to be approved by the appropriate USAID mission, for the receipt, use, maintenance, protection, custody and care of equipment...The recipient shall be guided by the following requirements...

(1) Property Control: The property control system shall include but not be limited to the following:...

(v) A record of disposition of each item acquired or furnished under the award...”

## **MANAGEMENT SCIENCES FOR HEALTH**

Financial Audit of Costs Incurred under  
Associate Cooperative Agreement No. 306-A-00-06-00522-00

### **Findings and Responses**

(Continued)

#### **2013-3: Lack of Evidence for Disposal of Equipment (Continued)**

##### **Cause:**

Evidence of disposal was not maintained due to USAID not requiring the return of the equipment on the approved disposition plan. Equipment that was not to be used for another agreement or donated to another agency was disposed of and the method of disposal was not maintained or documented. However, these pieces of equipment were included on the disposition list provided to USAID.

##### **Effect:**

Without evidence of disposal being maintained, equipment could be sold and the proceeds used for something other than the objective of the Agreement without USAID's knowledge. The total fair market value of the 11 computers is \$44. The fair market value was determined through online queries of used computer equipment. This cost has been questioned.

##### **Recommendation:**

1. We recommend that MSH return \$44 in questioned equipment costs to USAID.
2. We recommend that MSH establish procedures to ensure that all disposed equipment be properly tracked as required by the Agreement to ensure that USAID-funded equipment is properly disposed and proceeds are properly accounted for.

##### **Management Response:**

Based on a formal submission USAID approved that these pieces of equipment could be discarded because the administrative cost of sale would be higher than scrap value of items. The items were scrapped and it was not possible to obtain receipts. In the future when such items are discarded MSH will seek an approved scrap merchant and obtain a receipt.



**Management responses to MSH Draft Report were received via email from MSH's Senior Director of Finance and Accounting, David Collins, on May 2, 2013 as presented below:**

Dear Joe,

Thanks for the draft audit report. Our responses are provided below:

**2013-1: Entertainment Expenses Included as Other Direct Costs**

Management Response:

MSH maintains that these questioned costs were actually incorrectly described in the accounting records and were not expended for entertainment purposes, but were related to formal project activities and meetings. However, we accept the decision to disallow these costs based on those misleading descriptions. MSH has provided guidance to its Finance Team in Kabul to ensure that meeting costs are clearly and correctly described in all accounting entries in the future. The Finance Team has also been reminded that, if MSH is considering incurring any entertainment costs, these are unallowable under US grants or contracts according to OMB A-122.

**2013-2: Missing Source Documentation for Salaries and Wages**

Management Response:

MSH acknowledges that the selected documentation for three payments to Local Professional Staff in July, 2006 could not be located. These payments were made at the very beginning of the project and the related documentation was mistakenly shipped back with the to the home office for storage along with the previous project files and could not subsequently be traced. MSH found the files for the previous and subsequent months, but unfortunately the ones for that month were misplaced. MSH has clear documentation retention policies and will review its practices to ensure that all documents are properly stored and retrievable.

**2013-3: Lack of Evidence for Disposal of Equipment**

Management Response:

Based on a formal submission USAID approved that these pieces of equipment could be discarded because the administrative cost of sale would be higher than scrap value of item. The items were scrapped and it was not possible to obtain receipts. In future when such items are discarded MSH will seek an approved scrap merchant and obtain a receipt.

**Review of Prior Audit Recommendations**

MSH believes that the statement in the first paragraph is misleading and requests that it be changed. It currently states that "MSH has not taken adequate corrective action as they disagreed with 12 of the 14 findings, and there was no opportunity to remediate the other two." We request that this be changed to "MSH disagreed with 12 of the 14 findings and did not accept that corrective action was necessary. MSH accepted the other two finding but there was no opportunity to remediate theme because the related sub-awards had ended".

In addition we would like it noted that the SIGAR office recognized that the amount of time spent by the audit firm was not sufficient for a thorough compliance review and that it was part of a general and broad review of compliance across USAID's implementing partners.

Also we request that the detailed Compliance Review findings and responses paraphrased in the audit report be removed and that, instead, the full Compliance Review be attached as an Annex. We believe this will provide additional information in a better format that will assist the reader to have a more complete picture.

If all of the above are not possible then we will wish to include a separate response on the topic.

Thanks and regards

David

United States Agency for International Development (USAID – Afghanistan  
Regulatory Compliance (Vetting and Procurement) Review of USAID Afghanistan Awards  
RFP No. SOL-306-12-000020  
Implementing Partner: Management Sciences for Health, Inc.  
Award Number: 306-A-00-06-00522-00  
Project: Technical Support to the Central and Provincial Ministry of Public Health (Tech-Serve)  
Review Date: July 7, 2012

MSH Response to Final Report

Scope Area		1. Vetting and Mission Requirements							
S. No.	Rating	Issue / Finding		Recommendation	MSH Response				
1	H	<b>Vetting for the sub contract is not performed as per the mission order 201.04 requirement</b>		We recommend that management should vet all the transaction exceeding USD 150,000 before awarding the contract as per the guidelines of the mission order. Further Notice of Eligibility should also be obtained from USAID.  Approving authority for each sub award must ensure the same before signing.  For the purpose of ensuring compliance, a checklist of all the requirements should be prepared, which should be filled at the time of award of each sub award.	<b>Vetting, per Mission Order 201.04</b> , was not effective until 5/9/2011_The requirement was added to the Tech-Serve agreement through Modification #18 dated 6/27/2011.  Handicap International, which was issued as a fixed-price grant not contract, had a period of performance from 1 October 2008 to 30 April 2010. Therefore, this grant was completed before the vetting requirement was put in place.				
		Mission Order 201.04 outlined that “every award or sub award (Non US party) exceeding threshold of USD 150,000 should be vetted against the given criteria”. After vetting eligibility notice is issued to all sub awardees evidencing that they have been vetted as per the guidelines of Mission Order.							
		During our discussion and review of the subcontracts, we noted that vetting has not been carried out for the following Sub contracts:							
		<table><tr><th>Recipient</th><th>Type of award</th><th>Sub award number</th><th>Amount in USD</th></tr><tr><td>Handicap International (Non-US)</td><td>Fixed Price Contract</td><td>FPTA-08-01</td><td>220,000</td></tr></table>				Recipient	Type of award	Sub award number	Amount in USD
Recipient	Type of award	Sub award number	Amount in USD						
Handicap International (Non-US)	Fixed Price Contract	FPTA-08-01	220,000						
2	H	<b>2 CFR 175 Award Term for Trafficking in Persons not included in award instruments for prime and sub awards</b>  As per the requirements of Mandatory clauses, the following clause is to be included in the award instrument for prime and sub awards:  <i>This provision is required in accordance with 2 CFR 175 Award</i>		We recommend that the aforementioned provision should be included in the award instruments of all the sub awards.  Approving authority for each sub award must ensure such clause exist before signing the award instrument.	The Standard Provision “Trafficking in Persons (OCTOBER 2010)” was incorporated into MSH’s Cooperative Agreement through Mod #17 on 05/07/2011.  Three of the four sub-awards issued under Tech-Serve were issued prior to 05/07/2011. Two of the four sub-awards were completed prior to 05/07/2012. HPRO’s FPTA 10-01 had a period of performance that ended 06/15/2011. The guidance in AAPD 11-01 is that “All AOs must include the provision "Trafficking in				

		<p><i>Term for Trafficking in Persons. AOs must include this provision in all new awards. AOs must modify existing awards to include this provision at the earliest practicable opportunity.</i></p> <p>While reviewing the award instruments for sub contracts, we noted that the abovementioned provision has not been included in all the award instruments for the sub awards.</p>	<p>For the purpose of ensuring compliance, a checklist of all the requirements should be prepared, which should be filled at the time of award of each sub award.</p>	<p>Persons" in all new awards <u>and must modify existing awards to include the provision "Trafficking in Persons" at the earliest practicable opportunity</u>". There was no "practicable opportunity" to modify this subaward before its completion.</p> <p>MSH understands that the "Trafficking in Persons" Standard Provision should have been incorporated into the HPRO FPTA 11-01 issued 12/23/2011.</p>
3	H	<p><b>Mission order appendix F "Mandatory Clauses" III Restriction on Foreign Purchases not updated in sub award instruments</b></p> <p>The mission order requirement, Appendix F: Mandatory clause III the restrictions on foreign purchases from Cuba, Iran, Sudan, Burma and North Korea is updated in June 2008.</p> <p>While reviewing the award instruments for sub awards, we noted that the abovementioned provision is not updated and Tech-Serve is incorporating the old provision i.e. of February 2006 in the award instruments.</p>	<p>We recommend that Tech-Serve should incorporate the updated requirements of mission order regarding the restrictions on foreign purchases in the agreements, and get it signed by the sub awardee.</p> <p>Approving authority for each sub award must ensure such clause is updated in the award instrument.</p> <p>For the purpose of ensuring compliance, a checklist of all the requirements should be prepared, which should be filled at the time of award of each sub award.</p>	<p><b>Vetting, per Mission Order 201.04</b>, was put into effect on 05/09/2011. The requirement was added to the Tech-Serve agreement through Modification #18 dated 06/27/2011.</p> <p>Three of the four sub-awards issued under Tech-Serve were issued prior to 05/09/2011. Two of those had completion dates prior to 05/09/2011. The third had a completion date of 06/15/2011, before the issuance of Modification #18 to the Tech-Serve agreement.</p> <p>MSH understands that the "Mandatory Clauses" III Restriction on Foreign Purchases in Appendix F of Mission Order 201.04 should have been incorporated into the HPRO FPTA 11-01 issued 12/23/2011.</p>
4	H	<p><b>Screening on UNSC 1267 as per the requirement of Mandatory clauses is not carried out.</b></p> <p>As per the Mission order requirement Appendix D "The Contractor also will verify that the individual or entity has not been designated by the United Nations Security (UNSC) sanctions committee established under UNSC Resolution 1267 (1999) (the "1267 Committee") [individuals and entities linked to the Taliban, Usama bin Laden, or the Al Qaida Organization]. To determine whether there has been a published designation of an individual or entity by the 1267 Committee"</p> <p>However, we have been informed by the management that UNSC 1267 is not screened at the time of awarding the contract.</p>	<p>We recommend that management should scan UNSC 1267 for the name of vendor and also for the key personnel before awarding the sub contract.</p> <p>Further, screenshot of the list should be maintained in file.</p> <p>For the purpose of ensuring compliance, a checklist of all the requirements should be prepared, which should be filled at the time of award of each sub award.</p>	<p>Prior to issuing a contract, subcontract, subagreement, grant, or purchase order, it is MSH policy to screen all vendors against the following Global Watch Lists:</p> <ul style="list-style-type: none"> <li>• Office of Foreign Assets Control (OFAC) Specially Designated Nationals and Blocked Persons List (SDN)</li> <li>• Bureau Of Industry and Security (<u>BIS</u>) <ul style="list-style-type: none"> <li>• Entity List</li> <li>• Denied Persons List</li> <li>• Unverified List</li> </ul> </li> <li>• Excluded Parties List System (EPLS)</li> <li>• Department of State <ul style="list-style-type: none"> <li>• Nonproliferation Sanctions</li> <li>• Debarred Parties List</li> </ul> </li> <li>• FBI Wanted Fugitives (FBI)</li> <li>• United Nation Sanction List (UNSL)</li> <li>• World Bank Ineligible Firms (WBKN)</li> <li>• Interpol</li> </ul>

				<p>The requirements for UNSC 1267 are met by the screening against the United nations Sanctions List.</p> <p>Copies of all Clearance Verifications for subawards under Tech-Serve were made available to the reviewers at their request.</p>
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Scope Area		2. Governance and Control Environment		
S. No.	Rating	Issue / Finding	Recommendation	MSH Response
1	M	<p><b>Organogram is not prepared and maintained</b></p> <p>On discussion, we were informed by the management that Tech-Serve has not developed its organization chart.</p>	<p>We recommend that Tech-Serve should develop the organization chart according to the structure. The same should review and updated periodically.</p>	<p>As per MSH corporate standards, all projects create and maintain organograms that are revised throughout the life of the project and activity implementation.</p> <p>The Tech-Serve organogram is on file in the MSH Afghanistan office, and has been included in previous communications with the USAID Health Team in Kabul.</p>
2	M	<p><b>No formalised documented business continuity and disaster recovery plan in place</b></p> <p>We have been informed by the management that there is no formal business continuity or disaster recovery mechanism in place for key activities in the Procurement Department to remaining functioning in case of unforeseen circumstances including fires, terrorist attacks and public disorders.</p>	<p>We recommend that a clear and robust Business Continuity and Disaster Recovery plan should be developed.</p> <p>Amongst other strategies, the plan should clearly document the mechanism for maintaining back up and subsequent retrieval of critical documents.</p>	<p>As per MSH corporate standards, all critical financial and project data and documentation is stored on the MSH IT and computer network, and is backed up on a hard drive on a monthly basis. This monthly backup is stored at a separate location in case of fire or other catastrophic events.</p> <p><b>All Accounting files (QuickBooks) are archived at the Headquarters and as a worse case scenario can be reinstalled with no more than a partial month of data requiring reentry. On a recurrent basis, the accounting team is required to backup the file onto external media (flash drive.) The default is after every 4<sup>th</sup> time opening the file.</b></p>
3	M	<p><b>Terms of Reference (ToRs) and minutes of the meetings for Management Committee are not documented</b></p> <p>We noted that there are no TORs documented for the management committee. Further minutes of the meetings for the management committee are not documented.</p>	<p>We recommend that the ToRs for the management committee should be documented. The ToRs should specify at least the following:</p> <ul style="list-style-type: none"><li>▶ Roles and responsibilities</li><li>▶ Authorities</li><li>▶ Meeting frequency</li><li>▶ Members</li><li>▶ Quorum</li><li>▶ Secretary</li></ul> <p>We further recommend that minutes of the meetings held by the management committee should be documented. The same should also be circulated to the members for approval.</p>	<p>The MSH Afghanistan Country Leadership Team (CLT) has an approved Terms of Reference that contains all of the recommended specifications. This team includes the Project Directors for each of the USAID projects in the office, and the job descriptions for each of the Project Directors includes additional specifications of their roles and responsibilities in the Country Leadership Team.</p> <p>Each individual project, including Tech-Serve, maintains internal management team meetings. These meetings, and the roles and responsibilities of the members, are specified in the job descriptions of each management position.</p>

			<p>Additionally, the documented minutes should be filed for records and future reference.</p> <p>In the subsequent meetings, the action points from the previous meetings should be discussed and followed up for implementation.</p>	
4	M	<p>The communication protocols are not disseminated among employees</p> <p>Communication protocols are defined in the form an external communications policy which can serve as guidance for the staff when they communicate with the public or any other external stakeholder.</p> <p>We were informed by the management that currently there is no formally documented policy in place stating communication protocols to be followed whenever employees are communicating with external persons on behalf of Tech-Serve.</p>	<p>We recommend that communication protocols should be formally defined and documented by the senior management in the form of an external communication policy.</p> <p>Additionally, there should be a process in place whereby all employees are informed regarding the communication protocols to be followed. This should form part of the employee orientation at the time when new employee joins the organization and also on a periodic basis.</p>	<p>Tech-Serve, as with all USAID funded projects implemented by MSH in Afghanistan, had a Branding and Marking plan approved by USAID. This plan was used by the senior management team as a reference document on a regular basis, and it provided specific regulation to communications protocols and templates.</p> <p>The management team of the project conducted all external project communications in accordance with this approved Branding and Marking Plan. All members of the staff who had need of this document had access to it and used it on a regular basis.</p>

Scope Area		3. Financial Management System, Funding and Fund Transfer Mechanism		
S. No.	Rating	Issue / Finding	Recommendation	MSH Response
1	M	<p><b>Variance analysis of the budget is not performed</b></p> <p>During our discussion we have been informed by the management that they prepares annual budget and monthly cash forecast.</p> <p>However during our review we observed that the variance analysis is not performed nor any reasoning of the budget is documented.</p>	<p>We recommend that in order to monitor the actual expenditure against the budget a variance report should be prepared on monthly basis.</p> <p>On quarterly basis the same is also discuss with the senior management and should be forwarded to the home office for the review.</p> <p>We also recommend that the reason for variance should also be documented, a threshold can be determined and if there are any variances above the threshold the</p>	<p>As per MSH corporate standards, practices and procedures, each project conducts monthly and quarterly budget reviews in coordination with the home office support teams and the Chief Financial Officer. This information is then used to support regular workplan and workplan budget discussions with USAID on a minimum of an annual basis.</p> <p>Each project provides information to the MSH Finance Team to support cash requests for the following month, and the comprehensive request for all projects is sent to the home office. This request is detailed, and requests funds on an individual project basis at the level of major chart of account line items. The MSH home office team reviews these cash forecasts on an individual monthly basis, and over time.</p>

			reason should be documented.	Actual expenditure is reconciled against cash forecasts and budgets of each individual project on a monthly basis, feeding into the budget reviews discussed at the beginning of this response.
2	H	<p><b>Lack of dual controls over bank authorized signatory</b></p> <p>We have been informed by the management that COMU Director is the only authorized signatory to withdraw the cash and signs the cheque. All the payments are approved by authorized delegation of authority matrix and based on that COMU Director signs the cheque. We noted that there are no dual signatories for cheque signing.</p>	We recommend that there should be at least three authorized bank signatories, including COMU and COP. At one time, two authorised signatories should sign on cheque.	<p>As per MSH corporate standards, policies and practices, the MSH Afghanistan bank account has three approved signatories in Kabul. This includes the MSH Country Representative, the COMU Director, and the Chief of Party of the Tech-Serve project. The bank account has two additional signatories in the home office to ensure access to the account if the three primary signatories are not available.</p> <p>For any individual transaction, only one signatory is required. However, that financial signatory authority is the implementation of final approvals that are regulated by a rigorous internal control system, including the approved technical signatory for any individual project. MSH requires strict segregation of duties among the roles of personal, programmatic, financial and fiduciary signatories.</p> <p>It is not feasible to have multiple financial signatories on each individual transaction. MSH Afghanistan maintains internal checks and balances that ensure that all financial transactions are controlled according to USAID rules and regulations. Each individual bank transaction is recorded by email communications to both the Kabul and home offices. Daily cash payments are reconciled against Finance team records. Finally, monthly expenditures are reviewed in the home office by the individual projects to ensure appropriate technical approvals were provided for each transaction.</p>
3	H	<p><b>Lack of controls over petty cash management</b></p> <p>While reviewing the petty cash management, we have been informed by the management that MSH withdraws all the cash from the bank and keeps in a safe at MSH office. However we noted that there is neither defined petty cash limit nor replenishment limit in place.</p> <p>Further, there are two safe in place and we noted that the access to both safe is only with the cashier, and there are no dual controls over the same.</p> <p>Furthermore, we have been informed by the management that monthly cash reconciliations are prepared and cash count is done on ad hoc basis. However we did not find any documentary evidence of the cash count.</p>	<p>For better petty cash management we recommend that:</p> <p>Management should define a limit on petty cash and also on cash replenishment.</p> <p>A dual key control over cash should be implemented by the management in order to mitigate the risk of misappropriation of cash.</p> <p>At day end cash count should be done by cashier in presence of a person who is independent of the cash management. Both cashier and</p>	<p>MSH Afghanistan does not maintain a petty cash system in Afghanistan. All cash payments, regardless of size, are process through a highly controlled cashiering system. While many payments are made in cash, these payments are made by the Finance team through the Cashier's office, based on individual payment requests and approvals. All standard and required approvals and documentation are maintained in accordance to MSH corporate standards, practices and policies and as per USAID rules and regulations.</p> <p>Large capital expenditures are paid by bank transfer or cheque, when possible with an individual vendor. The bank system in Afghanistan does not hold a high level of confidence with some vendors or individual Afghans. MSH Afghanistan maintains the cash payment system for those vendors who do not maintain bank accounts, in order to ensure that open competition is maintained for best value to the USG. Exclusion of these vendors would limit procurement significantly, and as a result have an unacceptable impact on competition and transparency and possibly reduce best value to the USG.</p> <p>MSH Afghanistan maintains dual controls over the safes at both the Cashier</p>



			<p>the other personnel should sign off on the cash count sheet at day end.</p>	<p>Office and main safe offices. There is a check and balance between the keys assigned to the Cashier and the COMU Director, where neither party has the ability to open the safe without the other party.</p> <p>Cash reconciliations are done on a monthly basis, with ad hoc spot checks mid-month, and documentation of these reconciliations are sent to the home office at the beginning of each month. Documentation, in both paper and electronic format, is on file in both the MSH Afghanistan and home offices.</p> <p>The MSH home office performs a second set of reconciliations against the Corporate books and testing cash balances against money drawn and money expended.</p> <p>Due to the known high risk, the financial system in Afghanistan has always been subject to frequent internal audit and business assurance visits from the home office, including random cash counting and reconciliation on at least an annual basis.</p>
4	H	<p><b>No defined petty cash limit</b></p> <p>While reviewing the petty cash management, we have been informed by the management that all the expenditures including salaries, capital and operational expenditures are paid in cash. However we noted that there is no defined limit of petty cash for the expenditures that should paid in cash or should be paid via bank.</p>	<p>We recommend that for the payments, management should define a limit on payments through cash. We also recommend that salaries and capital expenditure should be paid via bank however operational expenditure up to the defined limit should only be paid though petty cash.</p>	<p>As reported above, MSH Afghanistan does not maintain a petty cash system.</p> <p>MSH Afghanistan recognizes the benefits of paying staff salaries through bank transfer, and continues to work with the staff to accept such a change. However, due to the confidence in the bank system above, this has not been possible to date. MSH Afghanistan will continue to work with the staff to make this shift, when appropriate.</p> <p>MSH Corporate policy requires strict limits on cash expenditures. However, for the duration of our tenure in Afghanistan it has been clear that standards for and access to banking have been limited. Operating with a high level of cash has been the only way to rationally operate the large programs conducted over the past ten years. Since the high risks have been well known, the cash management and accounting system in Afghanistan has been highly scrutinized, audited and overseen at both the local and international level.</p>



Scope Area		4. External Audits		
S. No.	Rating	Issue / Finding	Recommendation	MSH Response
1	L	<p><b>External audit for the project has not been carried out</b></p> <p>An external audit is a review of the financial statements or reports of an entity/projects by professional accountants not affiliated with the entity. External audit plays a major role in the financial oversight of projects because they are conducted by outside individuals and therefore provide an unbiased opinion.</p> <p>As per the discussion with the management, we have been informed that external audit of MSH is carried out at group level. However, we have been informed that project audit of TECH-SERVE has not been carried out.</p>	<p>We recommend that:</p> <ul style="list-style-type: none"> <li>management of prime awardee should get done projects external audit on annual basis</li> <li>Management should ensure that external audit of prime awardee is performed as per the applicable standards as defined in the USAID regulations and as per the TOR for external audit.</li> <li>Further, once external audit is performed, the report should be forwarded to USAID for their record purpose.</li> </ul>	<p>MSH conducts all audits required by project contracts/agreements, laws in the US or host country, or by other applicable regulations.</p> <p>The only requirement for external audits applicable to the Tech-Serve project is for an annual external audit of all MSH activities worldwide, to be performed by an independent auditor in accordance with OMB Circular A-133. This audit was performed in 2012 by MSH's independent external auditors, Tonneson &amp; Co; and we expect it to be completed by December 31, 2012. This document is made available online and a summary is posted to the Federal Clearinghouse, but we would also be happy to provide copies to any USAID office upon request.</p> <p>There is no requirement for an additional external audit just of MSH's operations in Afghanistan, or of just the Tech-Serve project.</p>

Scope Area		5. Procurement		
S. No.	Rating	Issue / Finding	Recommendation	MSH Response
1	H	<p><b>Procurements are not advertised</b></p> <p>As per the discussion with the management, we have been informed that for the procurements Request for Quotation (RFQ) are issued to the vendors. The same is evaluated by the evaluation committee. Further, we have been informed by the management, that there is no process for Request For Proposal above any threshold.</p> <p>As per FAR requirement for all procurements above USD 25,000, RFP must be advertised. However we noted that there is no process in place for the advertisement of the RFPs.</p>	<p>We recommend that the management should develop a threshold above which RFP is issued to vendors. The same should be advertised at appropriate media.</p>	<p>In accordance with MSH corporate standards, practices and policies, and with USAID regulations, all major procurements are competed on a free and fair basis and are communicated widely to ensure open competition. Major procurement RFPs are communicated to vendors through the internet (ACBAR or other websites, email, etc.), or through telephone contact with a list of reliable vendors.</p> <p>Due to the local operational and security environment, MSH Afghanistan does not advertise procurement RFPs through the local print or television media. With 30 years of experience in country, MSH has found that such advertisements increase the profile of MSH and its USAID projects, and opens these projects up to cases of fraud, corruption and potential security threats.</p>
2	H	<p><b>M&amp;E personnel is member of bid evaluation committee</b></p> <p>While reviewing the bid evaluation reports, we noted that Monitoring and Evaluation (M&amp;E) personnel also form part of the evaluation committee.</p>	<p>We recommend that M&amp;E personnel should not take part in bid evaluation. As they are also responsible for monitoring the progress of the project.</p>	<p>MSH Afghanistan rotates the membership of bid evaluation committees in order to ensure transparency in the selection of bidders, and to ensure best value to the USG. On this basis, each of the individual technical teams from any of the projects can expect to have team members called in to participate in the bid evaluations.</p>

				<p>The M&amp;E personnel of Tech-Serve and the other projects do not have responsibilities or a mandate to monitor financial, procurement or other project support functions. Although they do monitor the performance of the project overall, this performance level is appropriately distant from the periodic participation in individual bid selections that there is not a conflict of interest between the two functions.</p>
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## 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:

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