

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 14-34 Financial Audit

USAID's Health Service Support Project: Audit of Costs Incurred by Jhpiego Corporation



**F E B R U A R Y
2014**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

February 25, 2014

Dr. Rajiv Shah
Administrator
U.S. Agency for International Development

Mr. William Hammink
Mission Director for Afghanistan
U.S. Agency for International Development

This letter transmits the results of our audit of costs incurred by Jhpiego Corporation (Jhpiego) under a cooperative agreement with the U.S. Agency for International Development (USAID) to implement a Health Service Support Project (HSSP) in Afghanistan.¹ The audit covered the period July 1, 2006, through October 31, 2012, and was performed by Williams Adley and Company-DC, LLP (Williams Adley). It covered \$60,449,801 in expenditures.

The purpose of HSSP was to improve the quality of health care services provided to Afghan women of reproductive age and children under the age of five. Specifically, the project aimed to (1) strengthen and develop systems that support service delivery quality; (2) increase the number and performance of health care providers, especially for women in rural and under-served areas; (3) improve the capacity and willingness of communities, families, and individuals to make informed decisions about their health; and (4) increase the awareness of women's health needs.

The specific objectives of this financial audit were to

- render an opinion on the fair presentation of Jhpiego's Fund Accountability Statement;²
- determine and report on whether Jhpiego has taken corrective action on recommendations from prior audits or assessments;
- identify and report on significant deficiencies, including any material weaknesses, in Jhpiego's internal control over financial reporting; 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 its audit, SIGAR is required by auditing standards to provide oversight of the audit work performed. Accordingly, SIGAR reviewed Williams Adley's audit documentation and results and found them to be in accordance with generally accepted government auditing standards.

Williams Adley found that the Fund Accountability Statement presented fairly, in all material respects, revenues received and costs incurred under the cooperative agreement. Williams Adley also determined that Jhpiego did not take adequate corrective action on four findings identified from prior audits or assessments. In addition, Williams Adley reported two internal control findings and three instances of noncompliance, which prompted it

¹ USAID cooperative agreement number 306-A-00-06-00523-00.

² 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.

to question \$301,956 in costs. These questioned costs included \$46,025 in ineligible costs³ and \$255,931 in unsupported costs.⁴ See table 1.

Table 1 - Summary of Questioned Costs

Category	Questioned Costs Total	Ineligible	Unsupported
Travel	\$5,871		\$5,871
Supplies	\$329		\$329
Contractual	\$283,572	\$44,385	\$239,187
Other Costs	\$179		\$179
Indirect Charges	\$12,005	\$1,640	\$10,365
Totals	\$301,956	\$46,025	\$255,931

In addition, the audit found that Jhpiego had not remitted an estimated \$10,954 in interest income on funds drawn from its letter of credit in excess of its immediate cash needs.

Given the results of the audit, SIGAR recommends that USAID's Mission Director for Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$301,956 in questioned costs (\$46,025 ineligible and \$255,931 unsupported) identified in the report.
2. Recover, as appropriate, the estimated \$10,954 in interest income on funds Jhpiego drew from its letter of credit in excess of its immediate cash needs.
3. Advise Jhpiego to address the two internal control findings identified in the report.
4. Advise Jhpiego to address the three compliance findings identified in the report.

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

(F016)

³ 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.

⁴ 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.

**SPECIAL INSPECTOR GENERAL FOR AFGHANISTAN
RECONSTRUCTION**

**Incurred Cost Audit of
Fund Accountability Statement
JHPIEGO CORPORATION
Cooperative Agreement:
306-A-00-06-00523-00
July 1, 2006 to October 31, 2012**

Submitted by



January 31, 2014

Incurring Cost Audit of Jhpiego's Fund Accountability Statement

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Transmittal Letter

January 31, 2014

To the Leadership Team
Jhpiego Corporation
1615 Thames Street
Baltimore, MD 21231

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

We hereby provide to you our final report, which reflects results from the procedures we completed during the course of our audit of Jhpiego Corporation's (Jhpiego) cooperative agreement number 306-A-00-06-00523-00 with the United States Agency for International Development (USAID) for its health services support program (HSSP) in Afghanistan.

Within the pages that follow, we provide a brief summary of the work performed. Following the summary, we incorporated our Report on the Fund Accountability Statement, Report on Internal Control, and Report on Compliance. We do not express an opinion on the summary and any information preceding our reports.

In December 2013, we provided SIGAR a draft report reflecting upon our audit procedures and results. Jhpiego received a copy of the report in January 2014 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by SIGAR, USAID and Jhpiego. Jhpiego's responses and our corresponding rebuttal 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 Jhpiego's HSSP cooperative agreement.

Sincerely,

A handwritten signature in cursive script that reads 'Charbet M. Duckett'.

Charbet Duckett, CPA, CGFM
Partner

Summary

Background

The United States Agency for International Development (USAID) provides funding to grant recipients for services related to reconstruction activities in Afghanistan. Congress created the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to provide independent and objective oversight of Afghanistan reconstruction projects and activities. Under the authority of Section 1229 of the National Defense Authorization Act for Fiscal Year 2008 (P.L. 110-181), SIGAR conducts audits and investigations to: 1) promote efficiency and effectiveness of reconstruction programs and 2) detect and prevent waste, fraud, and abuse. As a result, USAID funded activities in Afghanistan fall under the purview of SIGAR in fulfilling its mandate.

USAID awarded \$19,141,074 to Jhpiego Corporation ("Jhpiego") under cooperative agreement number 306-A-00-06-00523-00 to implement a health service support project (HSSP) in Afghanistan, effective July 1, 2006. The award and subsequent modifications, which totaled \$62 million, were executed to provide technical assistance to non-governmental organizations (NGOs) in the provision of quality services, through October 31, 2012, to women of reproductive age and children under the age of five in 350 Basic Package of Health Services (BPHS) clinics and Essential Package of Hospital Services (EPHS) hospitals that service 13 USAID-funded provinces in Afghanistan.

Work Performed

Williams Adley and Company-DC, LLP (Williams Adley) was engaged by SIGAR to conduct a financial related audit of Jhpiego's HSSP cooperative agreement Special Purpose Financial Statement (Fund Accountability Statement).

Objectives

The objectives of the audit are to:

1. Express an opinion on whether the Fund Accountability Statement for the award presents fairly, in all material respects, revenues received, costs incurred, items procured directly by the U.S. Government and fund balances for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
2. Evaluate and obtain a sufficient understanding of Jhpiego's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
3. Perform tests to determine whether Jhpiego 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

Incurred Cost Audit of Jhpiego's Fund Accountability Statement

applicable laws and regulations, including potential fraud or abuse that may have occurred.

4. Determine and report on whether Jhpiego has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the fund accountability statement.

Scope

The scope of work in performing the engagement services related to the project in Afghanistan under cooperative agreement 306-A-00-06-00523-00 was to:

1. Perform a financial audit of incurred costs by Jhpiego under the Service Delivery and Quality of Basic Services in Afghanistan: Health Service Support Project (HSSP).
2. Review the Fund Accountability Statement and related Notes to the Fund Accountability Statement that are the responsibility of Jhpiego management. We reviewed internal controls related to the financial information for the audit period, including financial management systems controls and edit checks, procedural controls (documentation receipt, validation, reviews, approval levels, recordation, reconciliation, separation of duties, signatory requirements, etc.), and internal/external audits of project activities and the impact of corrective actions, if any.
3. Perform compliance testing including, but not limited to, activities allowed or unallowed; allowable costs/cost principles; cost determination/indirect costs; cash management; eligibility; equipment and real property management; matching, level of effort and earmarking; period of availability of Federal funds; procurement and suspension and debarment; program income; reporting; and sub-recipient selection and monitoring.

We looked at transactions for the period from July 1, 2006 through October 31, 2012 and subsequent events and information related to the findings and questioned amounts for the audit period, and we expressed an opinion on the Fund Accountability Statement and related Notes for the audit period.

The auditor's reports are supplemented by four attachments. Attachment A presents the status of management's corrective actions on prior audit recommendations provided to the management and Attachment B shows interest calculations on excess cash.

Attachment C presents management's official response to the audit report findings.

Attachment D presents the auditor's response to management's comments, which is intended to clarify matters of fact or disagreement between management and the

Incurred Cost Audit of Jhpiego's Fund Accountability Statement

auditor as required by Government Auditing Standards.

Methodology

To meet the audit objectives, Williams Adley identified the applicable criteria against which to test the Statement and supporting financial records and documentation through a review of the cooperative agreement and modifications thereto. This criteria included OMB circulars; USAID automated directives system guidelines; and regulations under 22 CFR, Part 226, administrative requirements for managing the grant funds pursuant to 2 CFR, Part 215, and cost principles for grant funds under 2 CFR, Parts 220 and 230. In addition, Williams Adley reviewed Jhpiego organizational charts and reporting hierarchy, policies and procedures, and the status of prior audit report findings to gain an understanding of the normal procedures and system of internal controls established by Jhpiego to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations.

Williams Adley used both random and risk-based sampling techniques to select expenditure, payroll, and asset inventory samples to test for allowability of incurred costs, and we reviewed procurement records to determine cost reasonableness and compliance with exclusion of parties not eligible to participate in federal awards. We requested and received supporting documentation for compliance evaluation of incurred costs. We reviewed submitted financial status reports for accuracy and compliance with reporting requirements. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in compliance with the negotiated indirect cost rate agreement.

The financial records for the majority of the sub-recipients that provided services under the cooperative agreement were located in Afghanistan. As a result, transaction testing in support of sub-recipient costs incurred was performed in that country.

Summary of Results

Williams Adley issued an unqualified opinion on Jhpiego's Fund Accountability Statement (Statement). Williams Adley also reported on Jhpiego's internal controls and compliance regarding the Statement. Upon completion of our audit procedures, Williams Adley identified 6 findings, 3 of which were presented in a management letter as insignificant issues. Of the 3 findings in the report, 1 exception was considered a material weakness, 1 exception was considered a significant deficiency, and all 3 findings were considered instances of noncompliance. Where internal control and compliance findings pertained to the same matter, we consolidated them into a single finding. A total of \$312,910 was questioned. The questioned amounts are summarized in the following table:

Incurring Cost Audit of Jhpiego's Fund Accountability Statement

Table 1: Summary of Questioned Amounts

Finding Number	Issue	Questioned Amount	Cumulative Questioned Amounts
2012-01	Incurring costs that were not adequately supported	255,931	255,931
2012-02	Incurring costs that were for ineligible expenses	46,025	301,956
2012-03	Interest on cash drawn down in excess of immediate cash needs	10,954	\$312,910

The summary is intended to present an overview of the results of procedures completed for the purpose described herein and is not intended to be a representation of the audit results in their entirety.

Williams Adley requested prior audit reports and recommendations provided in order to determine the impact on our audit, as well as to evaluate the adequacy of the corrective actions implemented. Out of a total of 19 prior audit findings, Jhpiego took adequate corrective action on 14 findings. Jhpiego did not take adequate corrective action on 4 of 7 prior findings related to unsupported costs, monitoring sub-awards, and internal audit coverage that management should address, and which are discussed in this report. See Attachment A for a status of those prior findings.

Summary of Management Comments

In responding to the draft audit report (see Attachment C), Jhpiego management did not agree with all of the findings and asserted that certain questioned costs should be removed from the Audit Report. Management believes that adequate support was provided for the majority of questioned unsupported costs incurred, and cost reasonableness support and appropriate prior approvals were provided for the ineligible questioned costs. The auditor responded to management's comments as detailed in Attachment D to this Audit Report. One change was made to the questioned costs in the amount of \$637 for a transaction that was included in the Schedule of Findings and Questioned Amount in error. Management did not question the \$10,954 in excess interest.



Independent Auditor's Report on the Fund Accountability Statement

The Leadership Team
Jhpiego Corporation
Baltimore, Maryland

The Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, Virginia

Report on the Fund Accountability Statement

We were engaged to audit the Special Purpose Financial Statement (Fund Accountability Statement or the "Statement") of Jhpiego Corporation's (Jhpiego) cooperative agreement number 306-A-00-06-00523-00, and the related Notes to the Fund Accountability Statement.

Management's Responsibility for the Fund Accountability Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with generally accepted accounting principles. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on conducting the audit in accordance with auditing standards generally accepted in the United States of America and 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 from 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the

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Incurred Cost Audit of Jhpiego's Fund Accountability Statement

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 Statement.

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

In our opinion, the Statement referred to above presents fairly, in all material respects, the respective revenues received and costs incurred by Jhpiego under cooperative agreement 306-A-00-06-00523-00 for the period July 1, 2006 through October 31, 2012 in accordance with accounting principles generally accepted in the United States of America.

Other Matter

This report is intended for the information of Jhpiego, the 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 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued reports dated December 24, 2013, on our consideration of Jhpiego's internal controls and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. These reports are an integral part of an audit performed in accordance with Government Auditing Standards in considering Jhpiego's internal control over financial reporting and compliance.

Williams, Adley & Company - DC, LLP

December 24, 2013
Washington, D.C.

Incurred Cost Audit of Jhpiego's Fund Accountability Statement

Jhpiego Corporation

Fund Accountability Statement

Associate Cooperative Agreement No. 306-A-00-06-00523-00 SSP

United States Agency for International Development

For the period July 1, 2006 through October 31, 2012

	Total		Questioned Amounts		
	Budget	Actual	Ineligible	Unsupported	Notes
Revenues					4
Cooperative Agreement	\$62,002,455	\$60,449,801			
Interest Income	-0-	-0-	\$ 10,954		A
Total Revenue	<u>\$62,002,455</u>	<u>\$60,449,801</u>	<u>\$ 10,954</u>		
Costs Incurred					5
Salaries, Wages and Fringe Benefits	13,058,955	12,437,640			
Travel	6,266,452	6,090,202		\$ 5,871	B
Equipment	124,808	138,510			
Supplies	964,857	906,061		329	C
Contractual	21,392,204	21,792,588	\$ 44,385	239,187	D
Construction	-0-	-0-			
Other Costs	13,507,284	12,657,050		179	E
Total Direct Costs	<u>55,314,600</u>	<u>54,022,051</u>	<u>44,385</u>	<u>245,566</u>	
Indirect Charges	6,687,855	6,427,750	1,640	10,365	B,C,D,E
Total Costs Incurred	<u>\$62,002,455</u>	<u>\$60,449,801</u>	<u>\$ 46,025</u>	<u>\$ 255,931</u>	
Outstanding Fund Balance (deficit)	<u>\$ -0-</u>	<u>\$ -0-</u>			6

The Accompanying Notes to the Fund Accountability Statement are an Integral Part of this Statement

JHPIEGO CORPORATION

Notes to Fund Accountability Statement

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

1) Status and Operation

Jhpiego Corporation ("Jhpiego") is a non-profit 501c(3) organization incorporated in the State of Maryland on April 19, 1974 as an affiliate of Johns Hopkins University (JHU), a US-based institution of higher education. For more than 40 years, Jhpiego has successfully managed large, multi-year, worldwide awards and successfully implemented concurrent, multi-year bilateral projects worldwide, working directly at the local and community levels.

As a JHU affiliate, Jhpiego is governed by JHU financial statements and reporting structure. In accordance with Cost Accounting Standards, JHU's financial disclosure statement has been submitted and accepted by its cognizant government audit agency, the Department of Health and Human Services, Region III office and with whom JHU has a negotiated indirect cost rate agreement (NICRA). The independent auditing firm, KPMG LLP, prepares the University's annual financial statements and auditor's reports.

2) Summary of Significant Accounting Policies

a) Basis of Presentation

The accompanying Fund Accountability Statement (the "Statement") includes costs incurred under cooperative agreement 306-A-00-06-00523-00 ("Agreement") to provide support for health service delivery and quality of basic services in Afghanistan ("HSSP") for the period July 1, 2006 through October 31, 2012. Because the Statement presents only a selected portion of Jhpiego operations, it is not intended to and does not present the financial position or cash flows of Jhpiego. The information in this Statement is presented in accordance with requirements specified by Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the presentation of, the basic financial statements.

b) Basis of Accounting

The Statement reflects the revenues received and expenses incurred under the cooperative agreement issued by USAID, along with any interest income

Incurred Cost Audit of Jhpiego's Fund Accountability Statement

generated by maintaining those funds in interest bearing accounts. The Statement is not presented in accordance with accounting principles generally accepted in the United States of America (GAAP). 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. Further, expenditures are recognized following the cost principles contained in Title 2, Subpart 220 of the United States Code of Federal Regulations, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

c) Currency

The Fund Accountability Statement is presented in United States Dollars. For purposes of preparing the Statement, Jhpiego applies a conversion rate to foreign currency transactions for all sub-recipient billings and subcontracts wherein the expenses were recorded in Afghanis. The conversion rate is adjusted monthly and ranged from 45.035 to 52.4835 Afghanis per U.S. Dollar.

d) Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the approved cooperative agreement and award modifications issued by USAID.

3) Questioned Amounts

Questioned amounts are those amounts that are questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances. Questioned costs are recommended for exclusion from the Statement by the auditor pending a final determination by the USAID Contracting Officer.

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that the auditor recommended for exclusion from the Statement because the auditor determined the costs were not in accordance with the terms of the Agreement and applicable laws and regulations based on the evidence reviewed. Unsupported costs are those costs for which adequate or sufficient documentation necessary for the auditor to determine the allowability and accuracy of costs was not provided.

Incurred Cost Audit of Jhpiego's Fund Accountability Statement

Questioned costs are detailed within the Schedule of Findings and Questioned Amounts that accompanies the Independent Auditor's Report on Compliance.

4) **Revenues**

Revenues on the Statement represent the amount of funds that may be reimbursed to Jhpiego from USAID for allowable, eligible costs incurred under the contract during the period of performance.

5) **Costs Incurred by Budget Category**

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved budget adopted as a component of the nineteenth modification to the Agreement dated December 31, 2011.

6) **Fund Balance**

The fund balance presented on the Statement represents the difference between revenues earned and costs incurred or charged to the Agreement. An amount less than zero dollars indicates that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. An amount greater than zero dollars reflects revenues that have been received in excess of the costs incurred on the Agreement and awaiting final determination of allowable costs and final amount to be refunded to USAID.

Notes to the Questioned Amounts Presented on the Fund Accountability Statement¹

Note A: Program Income

Finding 2013-03 questions \$10,954 in interest income retained by Jhpiego. This amount represents \$12,204 in calculated interest for funds drawn down in excess of immediate cash needs, less \$1,250 in allowable administrative costs (\$250 per year for five years) for those annual periods where excess drawdowns occurred. Interest income on funds drawn down in excess of immediate cash needs is ineligible income and must be returned to the United States Treasury.

Note B: Questioned Costs – Travel

Finding 2013-01 questions \$5,871 in travel related costs and \$1,104 in Jhpiego indirect costs for 8 transactions that were missing supporting documents or the supporting documents did not agree with the amount paid. As a result, we questioned the transactions as unsupported costs.

Note C: Questioned Costs – Supplies

Finding 2013-01 questions \$329 for supplies and \$62 in related Jhpiego indirect costs for 1 transaction that was missing supporting documentation. As a result, we questioned the transaction as unsupported costs.

Note D: Questioned costs – Contractual Costs

Finding 2013-02 questions \$44,385 in contractual costs and \$1,640 in related Jhpiego indirect costs for 49 transactions related sub-recipient personnel costs, vehicle rentals, supplies and other costs for 7 sub-recipients. These costs were questioned because the costs lacked evidence of required prior approval, the costs could not be verified as allocable to the project, or evidence of cost reasonableness could not be determined. As a result, these incurred costs were deemed ineligible.

Finding 2013-01 questions \$239,187 in contractual costs and \$9,165 in related Jhpiego indirect costs for 169 transactions related to the procurement of goods and services by the grant recipient or sub-recipients that were missing adequate source documents or source documents did not match the invoiced amount. As a result, these incurred costs were deemed unsupported.

¹ Notes to the Questioned Amounts Presented on the Fund Accountability Statement were developed by and are the responsibility of the auditor.

Note E: Questioned costs – Other Costs

Finding 2013-01 questions \$179 for direct costs and \$34 in related Jhpiego indirect costs for 1 transaction related to other incurred costs. We identified this transaction as an unsupported cost because documentation to support the Jhpiego telecommunications expense was missing.

Independent Auditor's Report on Internal Control

The Leadership Team
Jhpiego Corporation
Baltimore, Maryland

The Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, Virginia

We have audited the Fund Accountability Statement (the "Statement") of Jhpiego Corporation (Jhpiego) for cooperative agreement number 306-A-00-06-00523-00 for the period July 1, 2006 through October 31, 2012, and have issued our report thereon dated December 24, 2013.

We conducted our audit in accordance with U.S. Government Auditing Standards issued by the Comptroller General of the United States. In planning and performing our audit, we considered the entity's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Amounts, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. 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 Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Amounts to be material weaknesses: Finding 2012-01.

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Incurred Cost Audit of Jhpiego's Fund Accountability Statement

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Amounts to be significant deficiencies: Finding 2012-02. Other deficiencies that were not material weaknesses or significant deficiencies and did not have questioned amounts were addressed in a separate management letter, which has been shared with SIGAR and Jhpiego management.

This report is intended solely for the information of Jhpiego, United States Agency for International Development and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, upon release by SIGAR, this report is a matter of public record and its distribution is not limited.

Williams, Adley & Company - DC, LLP

December 24, 2013
Washington, D.C.

Independent Auditor's Report on Compliance

The Leadership Team
Jhpiego Corporation
Baltimore, Maryland

The Office of the Special Inspector General for Afghanistan Reconstruction
Arlington, Virginia

We have audited the Fund Accountability Statement (the "Statement") of Jhpiego Corporation (Jhpiego) for cooperative agreement number 306-A-00-06-00523-00 for the period July 1, 2006 through October 31, 2012, and have issued our report thereon dated December 24, 2013.

We conducted our audit in accordance with U.S. 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 resulting from violations of agreement terms and laws and regulations that have a direct and material effect on the determination of the Statement amounts.

Compliance with agreement terms and laws and regulations applicable to Jhpiego is the responsibility of Jhpiego's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of Jhpiego's compliance with certain provisions of agreement terms and laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of agreement terms and laws and regulations that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the Statement. The results of our compliance tests disclosed the following material instances of noncompliance, the effects of which are shown as questioned amounts in the accompanying Schedule of Findings and Questioned Amounts as: Findings 2012-01, 2012-02, and 2012-03.

We noted one instance of two vehicles reported as stolen during the period audited. We conclude that fraud occurred as a result of this incident. Both vehicles were insured, the theft was reported to USAID as required, and reimbursement was made to the project

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based on the value of the vehicles. As a result, no further action was necessary to resolve this issue and there was no material impact on the Schedule.

We considered these material instances of noncompliance in forming our opinion on whether Jhpiego's Statement is presented fairly, in all material respects, in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 2 to the fund accountability statement, and this report does not affect our report on the Schedule dated December 24, 2013.

This report is intended solely for the information of Jhpiego, United States Agency for International Development and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, upon release by SIGAR, this report is a matter of public record and its distribution is not limited.

Williams, Adley & Company-DC, LLP

December 24, 2013
Washington, D.C.

Schedule of Findings and Questioned Amounts

Finding 2012-01: Unsupported Disbursements (*Material Weakness and Non-Compliance*)

Condition: Of 233 randomly selected transactions tested that totaled \$14,752,724 of incurred costs from a total population of \$60,449,801, or 24% of the total costs incurred between July 2006 and October 2012, the following exceptions for travel, supplies, contract costs, and other direct costs were noted:

Table 2: Questioned Costs Related to Travel:

Item # ²	Grantee or Sub-Recipient	Condition	# of Errors	Questioned Cost ³	Indirect Cost ⁴	Total Questioned Cost
5, 10, 49, 122, 158, 331, 369	Jhpiego	Supporting documents were missing; Amounts per the supporting documents did not match the amounts paid	7	\$5,420	\$1,019	\$6,439
67	Jhpiego	Support that matches the amount paid was missing	1	\$451	\$85	\$536
Totals Table 2			8	\$5,871	\$1,104	\$6,975

Table 3: Questioned Costs Related to Supplies:

Item #	Grantee or Sub-Recipient	Condition	# of Errors	Questioned Cost	Indirect Cost	Total Questioned Cost
52	Jhpiego	Supporting documents were missing	1	\$329	\$62	\$391
Totals Table 3			1	\$329	\$62	\$391

² The item number refers to the sample item of disbursements tested by the auditor using Jhpiego's summary level transaction record and provides the link between the summary amount per Jhpiego records and individual transactions that were tested within the summary amount.

³ Questioned cost includes the direct cost plus the applicable indirect cost applied by the sub-recipient, if applicable.

⁴ Indirect costs as applied by Jhpiego to modified direct costs, which include the first \$25,000 of subcontracts and sub-grants, salaries and wages, fringe benefits, materials, services, supplies and travel.

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Table 4: Questioned Costs Related to Contracts:

Item #	Grantee or Sub-Recipient ⁵	Condition	# of Errors	Questioned Cost	Indirect Cost	Total Questioned Cost
359	ACTD	Invoices pre-dated signed vehicle rental agreement, no price comparison	2	\$3,137	\$590	\$3,727
359	ACTD	Surveyors contracts and activity reports were not provided	1	\$1,782	\$156	\$1,938
28, 44, 88	Aga Khan	Support for computer equipment (\$600), food supplies/printing (\$823), and generator parts (\$300) not provided	3	\$1,723	\$0	\$1,723
354	HNTPO	Approving signatures could not be verified and the stamps were missing for the food charges for the CME students	5	\$4,924	\$0	\$4,924
402	Ibn Sina	No supporting documents were provided	16	\$28,000	\$0	\$28,000
6, 28, 44, 88	Ibn Sina	Supporting documents were not provided for staff salaries and rent expenses	12	\$14,009	\$441	\$14,450
11, 14, 15, 53	IMC	Rental agreement on building not provided; vehicle lease agreement info did not match quotes	8	\$8,282	\$157	\$8,439

⁵ ACTD is acronym for Afghanistan Center for Training and Development
HNTPO is acronym for HealthNet TPO
IMC is acronym for International Medical Corps
MRCA is acronym for Medical Refresher Courses for Afghans
NAC is acronym for Norwegian Afghanistan Committee
SAF is acronym for Solidarity for Afghan Families
SHDP is acronym for Social and Health Development Program
SC-US is acronym for Save the Children – United States
WVI is acronym for World Vision International

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Item #	Grantee or Sub-Recipient ⁵	Condition	# of Errors	Questioned Cost	Indirect Cost	Total Questioned Cost
11, 88, 343	IMC	Supplier invoices not located (\$143); student list for receipt of cloth not located (\$57); fuel invoice missing (\$465); food invoice missing (\$449); printer/internet invoice not located (\$902)	7	\$2,492	\$8	\$2,500
6, 11, 14, 15, 21, 27, 28, 44, 53, 88	Merlin	Supporting documents such as vouchers, invoices, and agreements were missing	51	\$118,480	\$2,636	\$121,116
223, 242, 267, 307, 381	NAC	Supporting documents such as invoices rental agreements, and proof of payment were missing; Amount per the rental agreement did not agree with amount paid	7	\$15,297	\$1,125	\$16,422
323	SHDP	Timesheets did not support the level of effort charged	1	\$3,878	\$729	\$4,607
257, 317, 356	MRCA	Vehicle lease payment increases are not supported	3	\$589	\$31	\$620
355	SAF	Vehicle rental quotations were not supported	2	\$7,678	\$1,443	\$9,121
15	SC-US	Confirmation of rent payments inconsistent with documentation. Cannot verify costs paid.	5	\$9,711	\$818	\$10,529

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Item #	Grantee or Sub-Recipient ⁵	Condition	# of Errors	Questioned Cost	Indirect Cost	Total Questioned Cost
15, 20, 21, 27, 44, 88	SC-US	Missing signed timesheets to support level of effort charged; food expense invoices/receipts not provided; fuel expense not supported	22	\$10,291	\$52	\$10,343
14, 15, 20, 88, 114, 178	WVI	Supporting documents were missing	16	\$3,823	\$22	\$3,845
27	Jhpiego	Staff medical reimbursements were not supported	2	\$408	\$77	\$485
28, 66, 88, 189, 289, 350	Jhpiego	Supporting documents were missing for rental expenses for training, contracted salary, vendor payments, and transfer of tax; Interview fee paid was different from the contracted amount.	6	\$4,683	\$880	\$5,563
Totals Table 4			169	\$239,187	\$9,165	\$248,352

Table 5: Questioned Costs Related to Other Direct Costs:

Item #	Grantee or Sub-Recipient	Condition	# of Errors	Questioned Cost	Indirect Cost	Total Questioned Cost
204	Jhpiego	Supporting documents were missing for telecommunications expense	1	\$179	\$34	\$213
Totals Table 5			1	\$179	\$34	\$213
Total Unsupported Costs (Tables 2, 3, 4, 5)			179	\$245,566	\$10,365	\$255,931

Criteria: Under Title 22, CFR, subsections 226.21(b)(6)-226.21(b)(7), a grant-recipient's financial management systems should provide written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. A grant-recipient's financial management system should also provide

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accounting records, including cost accounting records that are supported by source documentation.

Jhpiego's Finance & Accounting Policy Manual states the following:

Standards for Recorded Transactions

Recorded financial transactions must be complete, valid, accurate, final, and supported by original source documentation.

Complete

Each payment must be supported by documentation, including:

- An original invoice OR a receipt for the purchase of the allowable item
- A check/petty cash request form, signed by an authorized staff member
- Confirmation from payee that funds were received, such as a signed receipt or canceled check
- Paid invoices stamped PAID, with the date the payment was made and the number of the check
- A goods-received receipt, or other statement attesting that the goods and/or services purchased were in fact delivered

Valid

A payment is valid if it is made to a verifiable vendor for an allowable expense, and if the documentation exists to show that the goods or services paid for were actually received.

Accurate

The record of a transaction must show the exact value, and be charged against the appropriate General Ledger (GL) Account and Internal Order (IO) Number.

Final

You may not alter an original transaction in any way.

Cause: Jhpiego did not implement a comprehensive review process. Jhpiego did not request copies of the source documents prior to or as part of the invoice review process and before approving sub-recipient billings submitted by its field office for payment. Instead Jhpiego relied on sub-recipient certifications that expenses were fully supported. The absence of a robust review process resulted in the payment of sub-recipient billing statements that were not fully supported and for which Jhpiego did not retain source documents as required.

Effect: The absence of sufficient and adequate source documentation that matched invoices paid resulted in \$255,931 in incurred costs that were not properly supported. Further, without proper support to justify incurred costs, the risk of the U.S. Government being overcharged and opportunities for waste, fraud, and abuse of government funds is increased.

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Recommendation: We recommend that Jhpiego either provide USAID with records that clearly support the \$255,931 in questioned costs presented above that were charged to USAID or reimburse USAID for those amounts for which adequate support cannot be provided.

Finding 2012-02: Ineligible Costs (*Significant Deficiency and Non-Compliance*)

Condition: We tested randomly selected non-payroll transactions totaling \$14,752,724 of incurred costs from a total population of \$60,449,801, or 24% of the total costs incurred July 2006 and October 2012. During our testing of travel, equipment, supplies, contract costs, and other direct costs, we determined the following exceptions for eligible costs:

Table 6: Questioned Cost Reasonableness

Sample Item #	Sub-recipient	Condition	# of Errors	Questioned Cost	Indirect Cost	Total Questioned Cost
359	ACTD	Bid document, cost analysis, or justification was missing for vehicle rental expense	6	\$3,767	\$228	\$3,995
11, 14, 15, 20, 21, 88	IMC	Increase in vehicle rental fees not justified	9	\$14,298	\$206	\$14,504
257, 317, 356, 363	MRCA	Coach rentals without competition	4	\$5,403	\$534	\$5,937
307	NAC	Documents to support cost reasonableness not provided (bid quotes/price analysis)	1	\$1,495	\$0	\$1,495
14, 15, 51, 88, 96, 97, 342, 360, 365, 374	WVI	Documents to support cost reasonableness not provided (bid quotes/price analysis)	13	\$9,659	\$546	\$10,205
Totals Table 6			33	\$34,622	\$1,514	\$36,136

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Table 7: Questioned Costs Due to Missing Prior Approval

Sample Item #	Sub-recipient	Condition	# of Errors	Questioned Cost	Indirect Cost	Total Questioned Cost
11	Aga Khan	No prior approval for travel Kabul/Dubai	1	\$220	\$0	\$220
343	IMC	International travel expenses not prior approved	2	\$346	\$0	\$346
257,317 338,356 363	MRCA	No prior approval for payment of student incentives (\$6,665) or extra trips (\$91);	6	\$7,229	\$0	7,229
Totals Table 7			9	\$7,795	\$0	\$7,795

Table 8: Non-Allocable Questioned Costs

Sample Item #	Sub-recipient	Condition	# of Errors	Questioned Cost	Indirect Cost	Total Questioned Cost
11	IMC	Fuel for different project paid with HSSP funds	1	\$839	\$28	\$867
53	IMC	Fuel costs charged although included in lease agreement	3	\$519	\$0	\$519
323	SHDP	Both meal expense and per-diem were paid for the same individual	2	\$521	\$98	\$619
317	MRCA	Withholding tax not deducted from payment	1	\$89	\$0	\$89
Totals Table 8			7	\$1,968	\$126	\$2,094
Total Ineligible Costs (Tables 6, 7, 8)			49	\$44,385	\$1,640	\$46,025

Criteria for Table 6: Title 22, CFR, section 226.43 requires that all procurements shall be conducted in a manner to provide, to the maximum extent possible, open and free competition.

Title 22, CFR, section 226.45 requires that some form of cost or price analysis shall be made and documented in the procurement files for every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost

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analysis is the review and evaluation of each element of cost to determine reasonableness, allocability, and allowability. Section 226.46 requires procurement records and files for purchases in excess of the small purchase threshold include the following at a minimum:

- (a) Basis for contractor selection,
- (b) Justification for lack of competition when competitive bids or offers are not obtained, and
- (c) Basis for award cost or price.

Jhpiego's Finance & Accounting Policy Manual states the following:

Competitive Bidding

In selecting a vendor, we must show that we have:

- Researched the availability and cost of the goods in question
- Sought competitive bids from at least three vendors
- Selected the item which provides the best value (This doesn't necessarily mean the least expensive item available, but we have to show that our choice represents the most efficient use of award funds.)

Criteria for Table 7: Per 2 CFR, Part 230, Appendix B and OMB Circular A-122, Attachment B, paragraph 33, Participant support costs, requires the following:

"Participant support costs are direct costs for items such as stipends or subsistence allowances, travel allowances, and registration fees paid to or on behalf of participants or trainees (but not employees) in connection with meetings, conferences, symposia, or training projects. These costs are allowable with the prior approval of the awarding agency."

Prior approval by USAID for payment of such incentives to students by MRCA was not provided.

Criteria for Table 8: Under 2 CFR, Part 230, Appendix A.4.a, Allocable costs, a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.

Jhpiego's Finance & Accounting Policy Manual states the following:

Standards for Recorded Transactions

Recorded financial transactions must be complete, valid, accurate, final, and supported by original source documentation.

Valid

A payment is valid if it is made to a verifiable vendor for an allowable expense, and if the documentation exists to show that the goods or services paid for were actually received.

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Accurate

The record of a transaction must show the exact value, and be charged against the appropriate General Ledger (GL) Account and Internal Order (IO) Number.

Cause: Jhpiego and its sub-recipients did not develop sufficient internal controls to ensure price or cost analysis for each procurement action was maintained in the procurement files or document the best value was obtained for each procurement action. Further, Jhpiego and its sub-recipients did not document approvals for expenditures for items that required prior approvals. Finally, Jhpiego's sub-recipient review and approval process was insufficient to observe sub-recipient duplicate charges or incorrect postings to project costs.

Effect: In the absence of sufficient and adequate documentation that all procurements were done to maximize full and open competition, appropriate officials approved expenditures when required and that charges were allocable to the award, we could not determine that the costs charged to USAID were reasonable, that the procurement did not exclude or otherwise limit competition, and that the costs were eligible for reimbursement.

We determined questioned costs in the amount \$46,025 as a result of the 49 ineligible incurred cost transactions.

Recommendation: We recommend that Jhpiego provide USAID with records that clearly support the eligibility of the \$46,025 in questioned costs presented above that were charged to USAID or reimburse USAID for those amounts for which adequate support cannot be provided.

Finding 2012-03: Funds in Excess of Cash Needs (Non-Compliance)

Condition: Jhpiego uses the Department of Health and Human Services Payment Management System (DHHS-PMS) to draw down funds for the project from the United States Treasury on a reimbursement basis through a letter of credit (LOC). In our review of this process, we noted certain instances in which Jhpiego drew down funds in excess of its immediate cash needs, which is not permitted under the LOC process. No evidence was provided of prior approval from the USAID/Washington Deputy Chief Financial Officer to allow for advances in excess of 30 days, authorization for Jhpiego to retain interest, or annual remittance to the U.S. Treasury of interest earned on advances.

Criteria: Under the USAID Automated Directive System (ADS), Chapter 636, section 636.3.3.1, Amount Limitations, advances shall be limited to the minimum amount needed for "immediate disbursing needs" and are paid as close as administratively feasible to the actual disbursements being made by the recipient organization. For USAID direct contracts, grants or other procurement and assistance arrangements, which provide for advance payments in excess of 30 days, prior approval is required from the USAID/W Deputy Chief Financial Officer before being authorized. Under

section 636.3.3.2, funds in excess of immediate disbursement needs shall be refunded to USAID. The only exceptions are when the excess funds will be disbursed within 7 days or when the amount is less than \$10,000 and it will be disbursed within 30 days. Per section 636.3.5, unless a recipient is specifically authorized to retain interest, interest earned on advances from USAID is remitted to the U.S. Treasury at least annually.

Cause: Jhpiego responded that due to the remoteness of locations and unique security concerns in Afghanistan, it interpreted a 60-day timeframe for advancing funds as close to the disbursement of funds as administratively feasible as meeting the spirit of the ADS requirements. As a result, Jhpiego did not institute effective controls to ensure that its draw down process considered only expenses to meet the 30-day immediate cash needs requirement as defined in the ADS.

Effect: The United States Treasury incurs an opportunity cost for funds that are drawn down by recipients in excess of their immediate needs and Jhpiego is in violation of the administrative requirements. We calculated \$10,954 in earned interest as a result of excess cash drawn down by Jhpiego during the performance period that should be returned to the United States Treasury (See Attachment B for interest calculation on excess cash).

Recommendation: We recommend that Jhpiego:

1. Institute a system to ensure that PMS drawdowns meet the 30-day immediate cash needs requirement for future projects funded by a letter of credit.
2. Return interest earned to the United States Treasury for project funds drawn down through the PMS in excess of its immediate cash needs, which we calculated as \$10,954, or provide evidence that Jhpiego was authorized to retain the interest earned or remitted such interest annually as required.

Attachment A – Summary of Prior Audit Findings

Prior audits, assessments or reviews of Jhpiego that we considered applicable to the scope of our work were obtained and read to ensure that there were no significant deficiencies or material weaknesses noted. For any significant deficiencies or material weaknesses affecting the cooperative agreement, we performed test work to ensure proper correction of any significant deficiencies or material weaknesses that impacted the project. Jhpiego did not take corrective action on all the identified prior recommendations that could have a material impact on the Fund Accountability Statement as indicated in the current status summary for each prior finding discussed below. Out of a total of 19 prior audit findings, Jhpiego took adequate corrective action on 14 findings. We summarized 7 of the 19 findings below, which could have a material impact on the Fund Accountability Statement, and included a status on the remaining 12 findings in a management letter. The 4 significant prior findings presented below without adequate corrective action related to unsupported costs, monitoring sub-awards, and inadequate internal audit coverage were repeated as part of significant deficiencies or material weaknesses that management should address.

A.F. Ferguson & Co. financial audit review of periods April 1, 2005- December 31, 2006 and July 1, 2006- December 31, 2006

R.1 – Missing supporting documentation; R.2 – Missing training attendance records

We obtained a prior audit for the period April 1, 2005- December 31, 2006: Clinical and Community Maternal, Neonatal and Women's Health Services Program-ACCESS program; and July 1, 2006- December 31, 2006: Support for Services Delivery and Quality of Basic Services in Afghanistan-SSP. The audit included the schedule of local cost incurred and paid in Afghanistan under the aforementioned cooperative agreements, internal control structure, and Jhpiego's compliance with agreement terms and applicable laws. The following findings were noted:

Tests disclosed \$11,975 for ACCESS and \$13,155 for SSP in questioned costs for the period April 1, 2005 –December 31, 2006. Trainee travel supporting documentation for expenses incurred of \$23,665 cited as a reportable condition listed under R-1. Amount of \$1,464 cited for purchase orders, supplier invoice and goods receipts as unsupported condition listed under R-2. Under internal controls the auditor reported: R-1 training attendance records not maintained; and R-2 supporting documents not available. Auditor's report on compliance cites material instance of noncompliance for costs aggregating to \$25,129 was not available and represented as unsupported cost in the Schedule of Local Costs Incurred and paid in Afghanistan under the cooperative agreement.

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Current status: We determined that adequate corrective action was not taken to ensure supporting documentation for local costs incurred per finding R-2 and is repeated as part of finding 2012-01. We determined that adequate corrective action was taken to ensure training attendance records were maintained per finding R-1.

After April 2007, a policy was implemented that requires attendance to be documented through attendance sheets. We tested travel related invoices, attendance sheets for training, and invoices for proper supporting documentation as part of our disbursement testing. We noted exceptions under finding 2012-01 where documentation was not provided or was inadequate to support the related expenditure and included a recommendation to correct this issue.

Ernst & Young Ford Rhodes Sidat Hyder was contracted by USAID to perform a program review of the cooperative agreement for the duration of the program from July 1, 2006 through the review date of July 17-18, 2012.

The review findings are discussed as follows:

2.1 No monitoring function to ensure compliance with USAID guidelines

The auditor commented that as per better practices, a compliance function shall be established to monitor and ensure compliance with applicable donor rules and regulations. They were informed by management that the Director Finance and Administration is assigned the responsibility to ensure such compliance and there is no separate department to carry out such task.

Management responded that Jhpiego does not have a separate unit at the country office level to assume a compliance role, as the compliance function is embedded in the Grants Manager and Finance & Admin Director job descriptions. In addition, an Internal Control Review may be performed by headquarters on an annual basis to ensure compliance.

Current status: Jhpiego did not take adequate corrective action to address this issue and it is repeated as part of the cause for finding 2012-01 and 2012-02. Jhpiego has an internal control review process where Jhpiego headquarters employees travel to the countries and perform internal reviews following a program for which they have responsibility. The reviews include monitoring of sub-recipients in the country. And they work with the programs to clear findings. Country Directors are held accountable for repeated findings. We noted external audits were performed on the largest sub-recipients, but not for the smaller sub-awards. We also tested sub-recipient transactions in Afghanistan for eligible and supported incurred costs and noted sub-recipient questioned costs. As a result, we determined that Jhpiego's internal review process needs improvement in monitoring for compliance with USAID guidelines.

3.1 External audit is not carried out for project

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 audits play a major role in the financial oversight of projects because they are conducted by outside individuals and therefore provide an unbiased opinion. The auditor was informed by management that external audit of the company is carried out at head office level. In this respect the auditor noted that no specific external audit has been carried out for the HSSP project as per the USAID provided Terms of Reference for external auditors.

Management responded that Jhpiego is an affiliate organization of Johns Hopkins University (JHU). JHU conducts an A-133 audit annually by KPMG, an external independent auditor. KPMG's A-133 audit of JHU is inclusive of Jhpiego.

Current status: Jhpiego did take adequate corrective action to address this issue. Program was covered under the A-133 audit. We performed a review of the A-133 audits for every year of the project and noted that the A-133 single audit does comply with the external audit requirement without exception.

4.7 Printing services were obtained without entering into the contract

As per the discussion with the management, the auditor reported material expenditure was incurred for printing books. Currently Jhpiego procures these services through RFQ method. The auditor noted that Noori Printing Press was selected based on the RFQ method. Since the initial procurement multiple purchase orders were issued to the same vendor without competitive procurement process. The total value of the procurement to-date was \$156,740.

Management responded that since early January 2012 procurement for printing has been taken over by the procurement unit, which was handled by the technical unit previously. Since then the procurement process for printing has been conducted in transparent and competitive manner.

Current status: Jhpiego took adequate corrective action to address this issue. Jhpiego claims corrective action has been taken by the development of a procurement unit which was handled by the technical unit previously. We performed disbursement field work to include documentation of proper bid procedures as part of the test attributes. We did not note findings and questioned costs related to printing services.

4.8 Inadequate process for bid advertisement

The auditor reported that advertisements for the RFP were made in HSSP and MoPH websites. However, the auditor noted that there was no process for advertising the same in any newspapers.

Management responded that it is Jhpiego country office policy to conduct formal

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solicitation process (advertise bid in newspaper) when procurement value is equal to or greater than \$25,000. However, given newspapers are not widely read or used in Afghanistan, instead Jhpiego has advertised bids on Afghan.bids.com (a USAID-supported website) or on ACBAR.org.

Current status: Jhpiego did not take sufficient corrective action to adequately address this issue as this finding is repeated, in part, under finding 2012-02. Jhpiego claims that advertising on the newspaper is not a requirement and that they have used appropriate and adequate channels for advertising. We tested transactions for proper bid documentation to support full and open competition. We noted exceptions during our field work that resulted in questioned costs because evidence of proper competition to determine cost reasonableness was not provided in all instances, and in particular as it relates to sub-recipient procurement activities. We included a recommendation in finding 2012-02 to address this issue.

5.1 Lack of Internal Audit coverage

The auditor reported that internal auditing is an independent, objective, assurance activity designed to add value and improve an organization's operations. The auditor was informed by the management that the internal audit function for the project is executed from the home office. In this respect, the auditor noted the internal audit does not cover all the processes and is carried out on an ad hoc basis.

Management responded that Jhpiego did not have Internal Audit function at the country office level. However, Jhpiego's headquarters conducts internal audits at select country offices on an annual basis with a broader scope of work -from cash management, banking policy, assets management, advance, HR, internet, etc. As a follow-up, country offices are required to develop action plans to implement the audit recommendations and findings. In the future, if budget permits, Jhpiego will include an internal audit/compliance staff member in country who will ensure compliance.

Current status: Jhpiego did not take adequate corrective action to address this issue and that the internal review process needs improvement in monitoring for compliance with USAID guidelines. This issue is repeated as part of the cause in finding 2012-01. Jhpiego has an internal control review process where Jhpiego HQ employees travel to the countries and perform internal reviews following a program for which they have responsibility. And they work with the programs to clear findings. Country Directors are held accountable for repeated findings. The reviews include monitoring of sub-recipients in the country. However, we tested sub-recipient transactions in Afghanistan for eligible and supported incurred costs and noted sub-recipient questioned costs. As a result, we included a recommendation in finding 2012-01 to improve the monitoring process.

Attachment B – Interest Calculation on Excess Cash

Month-Year	Drawdown	Expenses	Advances (credits)	Advance liquidations	Net Balance	30 days+	Interest Rate**	Interest	Interest Due
May-06	-	4,875			(4,875)	0		0	
Jun-06	-	52,249			(57,124)	0		0	0
Jul-06	-	-			(57,124)	0		0	
Aug-06	-	-			(57,124)	0		0	
Sep-06	-	-			(57,124)	0		0	
Oct-06	-	-			(57,124)	0		0	
Nov-06	-	-			(57,124)	0		0	
Dec-06	-	1,173,220			(1,230,343)	0		0	
Jan-07	-	79,659			(1,310,003)	0		0	
Feb-07	-	673,644			(1,983,647)	0		0	
Mar-07	-	91,803			(2,075,450)	0		0	
Apr-07	-	104,396			(2,179,846)	0		0	
May-07	-	1,154,647			(3,334,493)	0		0	
Jun-07	-	1,114,829			(4,449,322)	0		0	0
Jul-07	-	(33,915)			(4,415,407)	0		0	
Aug-07	-	145,389			(4,560,796)	0		0	
Sep-07	-	134,747			(4,695,543)	0		0	
Oct-07	-	923,439			(5,618,982)	0		0	
Nov-07	-	128,344			(5,747,326)	0		0	
Dec-07	-	641,299			(6,388,625)	0		0	
Jan-08	459,673	525,268			(6,454,220)	0		0	
Feb-08	402,693	693,787			(6,745,313)	0		0	
Mar-08	463,307	167,878			(6,449,884)	0		0	
Apr-08	666,389	1,104,741			(6,888,236)	0		0	

Incurred Cost Audit of Jhpiego's Fund Accountability Statement

Month-Year	Drawdown	Expenses	Advances (credits)	Advance liquidations	Net Balance	30 days+	Interest Rate**	Interest	Interest Due
May-08	7,240,836	353,724			(1,123)	0		0	
Jun-08	1,117,881	1,148,808			(32,050)	0		0	0
Jul-08	687,160	120,917			534,193	0		0	
Aug-08	134,802	125,469			543,526	408,724	3.10%	1,056	
Sep-08	83,798	88,183			539,141	455,343	2.98%	1,131	
Oct-08	1,266,014	1,255,639			549,516	0		0	
Nov-08	488,876	524,886			513,507	24,631	1.93%	40	
Dec-08	1,277,944	1,590,644			200,807	0		0	
Jan-09	-	947,381			(746,574)	0		0	
Feb-09	3,217,213	1,288,709			1,181,930	0		0	
Mar-09	364,182	387,287			1,158,826	794,643	1.67%	1,106	
Apr-09	523,368	141,717			1,540,477	1,017,109	2.20%	1,865	
May-09	(1,613)	327,580			1,211,283	1,211,283	2.34%	2,362	
Jun-09	656,662	1,390,198			477,748	0		0	7,309
Jul-09	982,467	453,226			1,006,988	24,522	2.53%	52	
Aug-09	795,082	910,443			891,627	96,545	2.39%	192	
Sep-09	1,251,479	1,322,876			820,230	0		0	
Oct-09	1,059,454	987,832			891,852	0		0	
Nov-09	425,633	542,269			775,216	349,583	2.31%	673	
Dec-09	1,199,336	1,065,604			908,948	0		0	
Jan-10	1,057,531	1,232,828			733,652	0		0	
Feb-10	1,034,849	945,725			822,776	0		0	
Mar-10	924,556	1,127,008			620,323	0		0	
Apr-10	750,413	1,065,240			305,495	0		0	
May-10	967,147	421,391			851,252	0		0	
Jun-10	1,238,524	1,236,971			852,805	0		0	667
Jul-10	1,099,030	994,373			957,461	0		0	

Incurred Cost Audit of Jhpiego's Fund Accountability Statement

Month-Year	Drawdown	Expenses	Advances (credits)	Advance liquidations	Net Balance	30 days+	Interest Rate**	Interest	Interest Due
Aug-10	1,001,993	972,015			987,440	0		0	
Sep-10	1,451,842	1,374,918			1,064,364	0		0	
Oct-10	1,105,241	1,139,456			1,030,149	0		0	
Nov-10	1,949,412	2,141,198			838,363	0		0	
Dec-10	1,127,307	938,152			1,027,518	0		0	
Jan-11	1,294,436	1,307,925			1,014,029	0		0	
Feb-11	376,088	681,944			708,173	332,085	2.13%	589	
Mar-11	1,354,668	1,091,523			971,319	0		0	
Apr-11	714,187	1,221,216			464,290	0		0	
May-11	1,340,377	1,136,561			668,105	0		0	
Jun-11	1,568,847	1,226,483			1,010,469	0		0	340
Jul-11	1,404,141	1,472,587			942,023	0		0	
Aug-11	1,313,393	1,229,270			1,026,146	0		0	
Sep-11	670,421	665,931			1,030,636	360,215	0.96%	288	
Oct-11	801,018	824,839			1,006,815	205,797	0.99%	170	
Nov-11	859,906	793,952			1,072,769	212,863	0.96%	170	
Dec-11	771,927	814,196			1,030,501	258,574	0.83%	179	
Jan-12	248,890	615,115			664,275	415,386	0.71%	246	
Feb-12	697,563	594,867			766,972	69,409	0.87%	50	
Mar-12	1,285,188	1,222,159			830,000	0		0	
Apr-12	687,389	698,898			818,491	131,102	0.67%	73	
May-12	1,080,004	1,199,141			699,354	0		0	
Jun-12	-	1,159,247			(459,893)	0		0	926
Jul-12	1,659,252	1,511,370			(312,011)	0		0	
Aug-12	1,881,579	734,758			834,811	0		0	
Sep-12	1,402,032	1,403,257			833,586	0		0	
Oct-12	810,479	818,440			825,625	15,146	0.72%	9	

Incurred Cost Audit of Jhpiego's Fund Accountability Statement

Month-Year	Drawdown	Expenses	Advances (credits)	Advance liquidations	Net Balance	30 days+	Interest Rate**	Interest	Interest Due
Nov-12	594,885	160,692			1,259,818	664,933	0.61%	338	
Dec-12	337,720	336,238			1,261,300	923,580	0.72%	554	
Jan-13	(49,147)	10,387			1,201,766	1,201,766	0.88%	881	
Feb-13	(876,390)	293,875			31,500	31,500	0.77%	20	
Mar-13	(1,507)	(1,507)			31,500	31,500	0.77%	20	
Apr-13	(31,500)	-			0	0	0.68%	0	
May-13	-	-			0	0	1.05%	0	
Jun-13	(97,932)	(216,526)			118,594	118,594	1.41%	139	1,712
Jul-13	(118,594)	-			0	0	1.38%	0	
Aug-13	-	-			0	0	1.62%	0	
Sep-13	-	-			0	0	1.39%	0	0
Total Interest								\$12.204	

Net Interest Due \$10.954

** Interest rates obtained from Treasury yield curve for 5 year maturity on the last day of the month at [http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/yield_historical_main.shtml]

Attachment C – Management Response to Audit Findings



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January 28, 2014

Cordell Olive
Director
Williams, Adley & Company, LLP
1030 15th Street, NW
Suite 350 West
Washington, DC 20005

Dear Cordell,

Jhpiego is pleased to submit its management response to the Audit of the USAID funded Cooperative Agreement #306-A-00-06-00523-00 initiated by the Special Inspector General for Afghanistan Reconstruction (SIGAR) through the Williams Adley. Jhpiego understands Williams Adley will incorporate our management response in Attachment C to the draft audit report dated Jan 15, 2014.

1. Scope of the Audit

Williams Adley and Company-DC, LLP (Williams Adley) was engaged by the office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of Jhpiego for the USAID-funded Health Services Support Program (HSSP) Associate Award #306-A-00-00523-00. The objective of the HSSP award was to bring essential maternal and neonatal health services and interventions to Afghanistan families **in 14 provinces**. To achieve this objective, Jhpiego engaged, with USAID's knowledge and approval, thirteen (13) international and local organizations through subgrants.

The scope of this audit included Williams Adley, through RBCO, their affiliate firm based in Afghanistan, and a detailed financial audit of the thirteen (13) Jhpiego Subrecipients who received funding under this Associate Award (Table 1: List of Subrecipients and Amount of Funds Obligated).

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Sub-Recipient	Sub-Award Name	Total Obligation
1. Aga Khan Foundation	IHS Kabul	\$3,500,708
2. International Medical Corps	CME Khost	\$1,886,415
3. Merlin	CME Takhar	\$1,473,700
4. World Vision Inc.	IHS Herat	\$2,545,652
5. Ibn Sina	CME Paktya	\$1,231,640
6. Save the Children	CME Jawzjan	\$1,281,054
7. Norwegian Afghanistan Committee	CME Wardak	\$527,524
8. HealthNet TPO	CME Nooristan/Nangahar	\$256,499.92
9. Medical Refresher Courses for Afghans	CME Logar	\$248,400.05
10. Social and Health Development Program	Badakhshan	\$49,927
11. Agency for Assistance and Development of Afghanistan	Bamyan	\$92,371
12. Solidarity for Afghan Families	Jawzjan	\$49,456.20
13. Afghan Midwives Association	Organizational capacity building	\$384,514
Total		\$13,000,286

2. Methodology

The Schedule of Findings and Questioned Amounts on page 4 in the Independent Auditor's Report on Compliance states that Williams Adley randomly selected 233 transactions for testing that totaled \$14,752, 724 of costs incurred. In August 2013, Jhpiego informed Williams Adley that costs incurred from the 13 subgrantees were consolidated in JHU's accounting system at the line item level rather than at the transactional level. Therefore, the 233 transactions selected for testing were actually more than 150,000 transactions. Because Williams Adley's testing methodology was based on testing of over \$14M, Jhpiego was required to submit to Williams Adley, and their affiliate firm in Afghanistan, over 150,000 receipts within a six-week period.

Under standard audit procedures and practices, audits are conducted with the auditors on-site for the entire review and testing period. Being on-site allows the auditor and auditee to immediately and rapidly engage in discussions when issues and questions arise in order to avoid misunderstanding and achieve necessary clarity. For the vast portion of the review and testing period, however, Jhpiego was required to engage with Williams Adley remotely, although a small audit team did visit Jhpiego for a total of five days.

3. Summary of Results

The results of the audit disclosed a total of \$313,547 in questioned costs for all 14 organizations audited. The amount of questioned costs pertaining to costs incurred by Jhpiego is only \$13,414 or less than 0.2% of the total awarded amount of \$62M.

The questioned costs pertaining to the 13 subgrantees is \$248,352, of which almost 50% pertains to only one subgrantee, Merlin.

Jhpiego is of the opinion that, even with the questioned costs for Merlin, the results of this audit are more than very reasonable, considering that the work was being performed during an active war in Afghanistan, which may have hindered the subgrantees from fully complying with all of USAID's terms and conditions pertaining to competing goods and services.

Management Response to Questioned Costs

1. Finding 2012-01: Unsupported Disbursements - \$255,931

a. Table 2: Questioned Costs Related to Travel – Jhpiego

Jhpiego accepts that during the audit we were not able to locate supporting documents for eight transactions related to travel totaling \$6,975.

b. Table 3: Questioned Costs Related to Supplies

Jhpiego accepts that during the audit we were not able to locate supporting documents for one transaction related to the procurement totaling \$391.

c. Table 4: Questioned Costs Related to Contracts

c.1 ACTD Item #359 – The query sheet dated January 7, 2014, from RBCO through Williams Adley states under the Evaluation of Management Response column that ACTD provided the rental vehicle contract and the contract was accepted by the RBCO. Therefore, \$3,727 should be removed as a questioned cost.

c.2 ACTD Item #359 – The finding states that the employment contracts of surveyors was not provided. RBCO's query sheet does not show any questioned costs pertaining to salary expenses because ACTD provided the attendance sheets which were accepted by RBCO as sufficient documentation. Therefore, \$1,938 should be removed as questioned costs.

c.3 Aga Khan – Aga Khan accepts that documentation for computer equipment, food supplies/printing, and generator parts totaling \$1,723 was not available because the documents were misplaced.

c.4 HNTPO – Expense reports to substantiate the costs incurred of \$4,924 were provided to the auditors. The costs are being questioned because the auditors could not verify who signed the expense reports. HNTPO stamps

payment vouchers but they did not stamp the accompanying receipts. Additionally, HNTPO did not write the names of their staff on supporting documentation because staff are familiar with the signature of the authorizing officials. HNTPO has strengthened their internal control procedures based on the audit finding. HNTPO provided to the auditors all the supporting documentation and required information to demonstrate that the cost was allowable with appropriate internal approvals. Therefore, \$4,924 should be removed as a questioned cost.

- c.5 IbnSina – Ibn Sina did not provide additional documentation or a written management response to Jhpiego.
- c.6 IMC – The query sheet dated January 7, 2014, from RBCO through Williams Adley states under the Evaluation of Management Response that only \$941 was unsupported costs because the building rental agreement was not provided to the auditors (item #3 on RBCO's query sheet), and a total of \$519 (items #115, #116, and #117 on RBCO's query sheet) as questioned costs because the vehicle rental agreements did not match the quotes. The amount of \$8,439 reflected in the audit report needs to be revised to reflect the exact final amount of questioned costs of \$1,460 reflected on the final worksheet from RBCO.

Additionally, RBCO's worksheets show questioned costs of \$2,500 for supplier invoices that could not be located. RBCO's query sheets show only \$1,378 of questioned costs due to invoices not being provided to the auditors. Refer to items #16, #17, #22, #142, and #144 on RBCO's query sheet. The amount of \$2,500 reflected in the audit report needs to be revised to reflect the exact final amount of questioned costs of \$1,378 reflected on the final query sheet from RBCO.

Questioned costs of \$8,101 should be removed based on RBCO's query sheet.

- c.7 Merlin – The primary issue pertaining to the \$121,116 of questioned costs is that Merlin did not have a voucher process in place during the early phase of the HSSP project. The auditors are questioning costs of \$101,614 due to Merlin not having signed payment vouchers indicating that payments were authorized by appropriate officials. Payments made by the cashier were reviewed, verified, and approved by Merlin's CME Takhar project manager at the end of every month. A sample ledger indicating the payment review and approval process is located under the Merlin tab to this audit report. Therefore, \$101,614 should be removed as questioned costs.

The second issue pertains to salary payments made to [REDACTED] Merlin did not maintain pay slips to support the salary payments. In lieu of pay slips, Merlin provided unsigned employment contracts, bank slips, and

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timesheets to demonstrate that [REDACTED] was an official employee of Merlin.

- c.8 Norwegian Afghanistan Community (NAC) –
The item numbers referenced are from RBCO's query sheet:

Query No. 02 – Invoice/Item # 223 - Vouchers No. 11 and 60

The total amount of \$2,774.95 comprises the cost of two different rental cars plus 15% indirect costs as per agreement. [REDACTED] was contracted for the CME Maidan Shahar, Maidan-Wardak Province to transport the CME students from the CME (school and hostel) and two clinical sites in Maidan-Wardak as well as to Kabul for trainings and meetings when required. The payment vouchers with all the supporting documents (e.g., invoices and receipts) have been provided to the auditors in Afghanistan and the scanned copies of the contracts along with the quotations are provided to the US Auditor as well. If there is any remaining confusion, this seems to be a result of a lack of communication and/or coordination between the auditor in Afghanistan and the United States.

The expenses paid out to [REDACTED] were part of a temporary transportation arrangement for CME staff while waiting for a rent-a-car to be contracted. A safe taxi was chosen and a negotiated, lower-than-standard rate of AFS 800 per day for pick-and-drop was paid (\$15 per day for 100 kilometers is extremely reasonable). As soon as a rent-a-car was selected after due consideration and a contractual process implemented, this temporary arrangement was discontinued. The receipt along with its period covered by this temporary arrangement has been acknowledged by the recipient in the documents provided to both the Afghanistan and US auditors.

Query No. 03 – Invoice/Item # 307 - Vouchers No. 4 and 5

The contract with [REDACTED] at the value of \$1,000, has already been provided along with the quotations to the Afghan and US auditors. This contract was for transportation in and around Maidan-Shahar.

The contract with [REDACTED] at the value of \$1,300, has been provided to the Afghan and US auditors; this contract was for transportation between Kabul and Maidan-Shahar. The amount for this contract is higher than the contract with [REDACTED] due to the difference in distance driven per day (overland travel between two provinces). As the security situation on the road between Kabul and Maidan-Shahar was volatile, with multiple attacks every month, a tender was not published. A single source procurement was made after a thorough investigation of the standard rates for transportation between Kabul and Maidan-Shahar, and security and price were both considered. This is common practice when providing safe and secure

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transportation for women in Afghanistan (one should remember that the CME in Wardak has been victim of two bomb attacks over the past 16 months). We trust that the donors agree with our concern for the safety and security of the trainers and approve of our decision in this regard.

Query No. 04 – Invoice/Item # 381 - Vouchers No. 4 and 5

Both contracts with two altered amounts in the name of [REDACTED] of [REDACTED] have already been provided along with quotations and the reason why an extra amount of AFS 5,000 had been paid over the agreed contracted amount due to a sharp increase of fuel prices. This is why the contract amount for the second contract is AFS 5,000 higher than the first contract (all due to the increase in fuel prices).

Query# 05 – Invoice/Item# 267 - Voucher No. 11

The total amount \$5,425.04 consists of two separate payments.

- 1) [REDACTED] (ref. Query No. 2), already provided with the contract copy and quotations, hereby paid against car rental in December 2010 and January to February 2011, with the total amount of \$3,000.
- 2) The remaining amount of \$2,425.04 is the equivalent of AFS 110,000 paid on Voucher# 020 against a rental car for the months of January and February 2011 to [REDACTED]. [REDACTED] was contracted for AFS 2,200 per day for a Flying Coach (seating 12 to 14 people). According to our sub-contractor, the original copy of this contract was kept in our CME Maidan-Shahar office and lost during the bomb explosion on 23 November 2012, which completely destroyed the building housing the CME office, school, and hostel. This and a number of other documents were lost during this incident. The fact that the contract was kept in CME was confirmed by our Course Coordinator.

Query No. 06 – Invoice/Item # 242 - Voucher No. 12

With regard to payment of food costs for CME trainees and trainers visiting two hospitals for practical training, the required documents for the mentioned payment have been provided twice; the last time was on 19 December 2013, when the NAC provided these documents to Jhpiego as per auditors' request. These documents refer to the contract between the hospital and the NAC for reimbursing the hospital for food costs for the trainers and trainees when they were lunching at the hospital. This is documented by the trainees' attendance records, which have also been made available to Jhpiego.

Queries No. 11 and 12 – Invoice/Items No. 381 and 223

Actually, these payments are against food items purchased during the day by the cook. The consumption was recorded by the cook in the

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kitchen book, from which the Finance Officer made a monthly summary. This summary was approved by the Course Coordinator. All of these documents have been provided to your Afghan and US auditors.

Based on the above management response and documentation provided to the auditors, \$16,422 should be removed as questioned costs.

C.9 SHDP

The auditors are questioning costs related to 10% of [REDACTED] time charged to PPH (Post-Partum Hemorrhage) but not supported by a timesheet. PPH is one activity under the broad HSSP award and, therefore, the timesheet is at the award or grant level and not the activity level. There was no separate timesheet maintained for PPH because it was an integral component of the HSSP award. Therefore, questioned costs of \$4,607 should be removed.

c.10 MRCA

MRCA did not provide a management response to Jhpiego for the questioned costs

C.11 SAF

The questioned cost of \$9,121 pertains to vehicle rental quotations not being supported with adequate documentation. SAF provided the original vehicle agreement to the auditors. SAF agrees that the quotations were missing dates; however, SAF provided the bid analysis summary, which showed the date the bids were received. Additionally, the auditors raise concern that the quotations were on SAF letterhead rather than the letterhead of the vendors. Per SAF policies and procedures, when vendors do not have their own quotation forms or letterhead, SAF requests vendors to use SAF quotation forms. It is important to highlight that the work under HSSP was being implemented in Afghanistan during wartime and many businesses and suppliers were newly created when the economy opened up. Therefore, some suppliers may not have had all of the traditional types of business-related forms, such as quotation forms.

SAF provided to the auditors the original tender, bid analysis, and vehicle tax documents to demonstrate that proper procurement procedures were followed and the appropriate tax withholdings per Afghanistan income tax law were followed. Based on the documentation SAF provided to the auditors, Jhpiego believes the questioned costs of \$9,121 should be removed.

c.12 SC-US

Auditors determined \$10,259 as questioned costs because confirmations of rent payments were inconsistent with the documentation and the auditors could not verify the costs paid. The contract was provided and accepted by RBCO and a six-month rent has been paid in for the period of July through December 2006; it is recorded as prepayment and is amortized and charged as rent upon completion of the month.

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Additionally, the petty cash payment voucher reflects the signature of the landlord at the receipt part. In addition to this, the receipt acknowledgment has been attached to the voucher, but there is a typing error in the date on the receipt acknowledgment. Based on the documentation provided, the questioned costs of \$10,259 should be removed.

Auditors determined \$10,343 to be questioned costs because timesheets to support level of effort charged were not provided and invoices/receipts for food expenses were not provided. The actual amount of questioned costs per RBCO's query sheets pertaining to level of effort and receipts for food is \$9,911.43.

Save provided the auditors the payment voucher for the salary along with the payroll to substantiate salary payments. Save accepts that pay slips were misplaced due to many audits and movement of offices from one location to another. However, the payroll information provided to the auditors should be sufficient to substantiate that the payroll costs were allowable. Therefore, \$4,924 should be removed as questioned costs.

With regard to cost of food for CME students, food was purchased from shops in the remote areas of the country. The shopkeepers are illiterate and did not provide invoices during the years 2006–2008, the early years of the HSSP award. The types of items purchased from the food shops were potatoes, onions, vegetables, and meat for the students. Save provided confirmation from the cooks' and students' attendance records and signatures as supporting documentation to justify the procurement. With the understanding and acknowledgment of the war in Afghanistan and the growing infrastructure, or lack thereof, it is common that vendors in remote areas in Afghanistan were not as business-savvy as one would expect. Jhpiego determined the costs of the food to be reasonable in our review and approval of Save's invoices to Jhpiego. Therefore, \$4,987 should be removed as questioned costs.

c.13 WVI

Journal voucher to substantiate the questioned costs can be found on Attachment 1. Therefore, questioned costs of \$3,845 should be removed.

d. Table 5: Questioned Costs Related to Other Direct Costs

Jhpiego accepts that supporting documentation for telecommunication expenses totaling \$213 could not be located.

e. Finding 2012-02: Ineligible Costs - \$46,662

Table 6 – Williams Adley classified \$36,136 as ineligible costs because documents to support cost reasonableness for vehicle rentals were not provided. As stated under Title 22 CFR Section 225.45, price analysis may be accomplished in various ways, including comparison of price quotation submitted, market prices, and similar indicia.

The vehicle rental costs per transaction for each of the transactions classified as ineligible due to non-competitive bids are less than \$1,000. The HSSP activities were implemented throughout Afghanistan in remote areas where only one rental vehicle company was operating. Additionally, security was of utmost concern for staff traveling outside Kabul so Jhpiego and the subrecipients used vehicle rental companies that we trusted.

Jhpiego did perform a price analysis to determine reasonableness of costs in our review and approval of the invoices submitted to Jhpiego by the subgrantees. Jhpiego reviewed the subs' justification and to confirm that this cost charged to the HSSP award for vehicle rentals was reasonable. Jhpiego's HSSP Grant Officer confirmed the cost of rental vehicles with the HSSP **Provincial Coordinators** who were based in the provinces where the activities were being implemented (see list of provinces where provincial coordinator were based). As stated, ensuring the safety of HSSP staff took clear priority over the strict competitive bidding requirement, given that Afghanistan was a war zone and the vehicle rental costs were minimal, at less than \$1,000 per transaction. Jhpiego has HSSP Provincial Coordinators based in the following provinces:

Provinces Where HSSP Had Provincial Coordinators

- 1- Jawzjan
- 2- Badakhshan
- 3- Bamyan
- 4- Ningarhar
- 5- Khost
- 6- Paktia
- 7- Pakitka
- 8- Laghman

Additionally, Jhpiego determined the reasonableness of the vehicle rental costs by calling other agencies to confirm the cost on average. *For these reasons, Jhpiego believes the ineligible costs of \$36,136 should be removed as a finding.*

Table 7 – Questioned Costs Due to Missing Prior Approval

1. Aga Khan – Jhpiego previously provided Williams Adley language from OMB Circular A-122, which allows overtime for administrative staff without obtaining prior approval. According to OMB A-122, Overtime, extra-pay shift, and multi-shift premiums, premiums for overtime, extra-pay shifts, and multi-shift work *are allowable only with the prior approval of the awarding agency except when employees are performing indirect functions, such as administration, maintenance, or accounting.* Drivers fall under the category of performing indirect functions and therefore overtime is allowable without prior approval from the awarding agency. Williams Adley states that they were not able to determine if the overtime paid was for administrative personnel. The results of the audit did not disclose that Aga Khan paid overtime to any employee who was not considered as administrative personnel. The \$637 of ineligible costs should be removed.
2. MRCA – During the annual workplan process, MRCA provided detailed budgets with budget notes (refer to MRCA tab) to Jhpiego that specifically stated incentives would be paid to students to return home to their families. Jhpiego's approval of MCRA's budget and budget notes constitutes prior approval per the terms of the award. USAID's approval of the annual workplan and budgets constitutes prior approval, although the awarding agency in this case is Jhpiego, since the agreement was between Jhpiego and MRCA. The \$7,229 of questioned costs should be removed.

Table 8 – Non-Allocable Questioned Costs

The amount of the non-allocable questioned costs of \$2,094 is too small for Jhpiego to research, given the strict timeline to provide management comments by January 29.

Finding 2013-03: Funds in Excess of Cash Needs

Jhpiego accepts this finding.

Responses to the Summary of Questioned Costs are organized by each of the 14 organizations audited as follows:

Management Response to Prior Audit Findings

a. A.F. Ferguson and Co.

The auditors determined that adequate corrective action was not taken to ensure that supporting documentation for local costs incurred is available. The results of this audit by Williams Adley, which covered a six-year period dating back to 2006,

show that of a \$62M award across 14 international and local organizations, \$255k of costs (less than 1% of total expenses incurred) are questioned due to supporting documentation either not being available or the documentation being determined by the auditors to be inadequate to support the expense incurred. Having less than 1% of costs incurred determined as questioned costs demonstrates Jhpiego has taken corrective action to ensure that supporting documentation is maintained per USAID requirements.

b. Ernst and Young Ford Rhodes Sidat Hyder

1. No monitoring function to ensure compliance with USAID guidelines

Williams Adley determined that Jhpiego's internal review process needs improvement in monitoring for compliance with USAID guidelines. Due to security issues and restrictions on travel, Jhpiego electively contracted external audits of the HSSP award in lieu of conducting internal compliance reviews. The compliance and program reviews are an integral part of Jhpiego's compliance monitoring function.

Since 2010, Jhpiego has been performing enhanced annual compliance reviews, which include performing site visits to subrecipients, to ensure that expenses incurred are in compliance with USAID and other donor rules and regulations. In 2012, Jhpiego developed and implemented a compliance database to closely monitor recommendations and follow-up actions resulting from our internal compliance reviews.

Beginning in 2013, Jhpiego also implemented Program and Technical Reviews for field offices to ensure that Jhpiego is in compliance with USAID's program and technical guidelines.

2. External audit is not carried out for project

No additional comments required because Williams Adley determined that adequate corrective actions to address the A-133 external audit requirement were taken.

3. Printing services were obtained without entering into a contract

No additional comments required because Williams Adley determined that adequate corrective actions to address this finding were taken.

4. Inadequate process for bid advertisement

Jhpiego closely follows JHU's and USAID's procurement policies and procedures. Jhpiego recently developed a procurement manual that clearly specifies dollar thresholds for procurements requiring advertising in the newspaper. These guidelines were not in place during the HSSP award, but are now part of Jhpiego's written policies and procedures.

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5. Lack of internal audit coverage

Jhpiego does not have an internal audit department because auditing is part of the services the Johns Hopkins University provides to Jhpiego, and the audit costs are included in JHU's Facilities and Administrative rate charged to all sponsored awards. As stated under point b.1., Jhpiego has a compliance function that closely reviews and monitors activities and expenses incurred for all donors. Additionally, Jhpiego contracts with external auditing firms to perform audits of our country offices when needed.

Sincerely,



Edwin J. Judd
Chief Operating Officer

Attachment D – Auditor Response to Management Comments

Williams Adley, in consideration of the views presented by Jhpiego management, presents the following rebuttal and clarification to certain matters presented by the auditee. The responses below are intended to clarify factual errors and provide context, where appropriate, to assist users of the report in their evaluation of the findings and recommendations included in this report. In those instances where management's response did not provide new information and support to modify the facts and circumstances of the report findings, we have not provided a rebuttal or clarification.

Finding 2012-01

1.c.1 – Jhpiego management stated that because RBCO commented on its query sheet that the ACTD vehicle rental contract was received and accepted by RBCO, the questioned cost of \$3,727 should be removed. However, RBCO's final comments on this matter are that 2 expenses were booked prior to the signed contract date, which made the expenses unsupported. Further, quotations, comparative bid documents or similar documents to support the procurement were not provided. As such, the questioned cost remains as stated.

1.c.2 – Jhpiego management stated that because RBCO's query sheet does not show any questioned costs pertaining to ACTD salary expenses, the \$1,938 in questioned cost should be removed. However, RBCO commented that the reason for the unsupported cost for the surveyors was the absence of employment contracts, activity reports or terms of reference to support payments made for services rendered. As such, the questioned cost remains as stated.

1.c.4 – Jhpiego management stated that HNTPO provided to the auditors all the supporting documentation and required information to demonstrate that the \$4,924 in cost was allowable with appropriate internal approvals. The auditor could not independently verify that the signatures belonged to HNTPO authorizing officials and no stamp was affixed to indicate HNTPO official approval in lieu of invoices. As such, the questioned cost remains as stated.

1.c.6 – Jhpiego management commented that the RBCO query worksheet reflected questioned costs in the amount of \$1,460 for items 3, 115, 116 and 117 under the IMC tab. As a result, management believes that the \$8,439 in questioned costs should be revised to reflect the smaller amount. Also, according to management items 16, 17, 22, 142 and 144 on the RBCO query sheet for IMC reflect \$1,378 in questioned costs and not the \$2,500 reported in the finding. The auditor reviewed the RBCO query sheet for IMC and compared it with the questioned costs per the Audit Report. No discrepancies were found between amounts listed in the two documents. As a result, the questioned cost

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remains as stated.

1.c.7 – Jhpiego management commented that payments made by the MERLIN cashier were reviewed, verified and approved by MERLIN's project manager at the end of every month. Management believes that for this reason, the \$101,614 in questioned costs for missing, signed payment vouchers should be removed. As per comments made by MERLIN on the RBCO query sheets, vouchers were prepared, reviewed and approved on the MERLIN computer system. However, MERLIN was unable to extract the vouchers from the system to provide to the auditor for review. As a result, the costs remain as unsupported.

1.c.8 – Jhpiego management requested that \$16,422 in questioned costs for NAC be removed from the report as additional support was provided for the cost of vehicles rented by the organization, attendance list for students provided meals, and a monthly summary of food items purchased. As the totality of support was not provided during fieldwork, the additional documentation was not reviewed. As a result, the questioned cost remain as stated.

1.c.9 – Jhpiego management stated that the timesheet for time charged to Post-Partum Hemorrhage is supported as one activity performed by SHDP under the HSSP award. The final determination of the validity of management's statement should be made by USAID as this response was not provided during the audit fieldwork.

1.c.11 – Jhpiego stated that SAF provided the auditors with the original tender, bid analysis and vehicle tax documents to demonstrate proper procurement procedures were followed and the appropriate tax withholdings per Afghanistan income tax law were followed, and therefore, the \$9,121 in questioned costs should be removed. RBCO's response is that the quotations were not dated and bid analysis form was not provided. Also, the cash receipt acknowledgement was inclusive of the withholding tax, not net of the withholding tax, which was an additional discrepancy in the documentation. As a result, this questioned cost remains as unsupported.

1.c.12 – As per management's comments, the date on the receipt acknowledgement, October 25, 2005, did not match the period for which rent was paid, which was July to December 2006. The questioned cost of \$10,529 remains as stated due to this discrepancy in documentation.

Jhpiego management stated that the questioned cost for level of effort and food costs should be \$9,911.43 and not \$10,343 as per the description in Table 4 for SC-US. The RBCO query sheet shows the correct amount of questioned costs. The description in Table 4 was updated to include a questioned cost for unsupported fuel costs in the amount of \$379.39. When combined with the \$52 in indirect costs, the total questioned cost is \$10,343, rounded to whole numbers. As a result, the questioned cost remains unchanged.

1.c.13 - Jhpiego submitted a journal voucher to substantiate the questioned costs of \$3,845 for WVI. However, the documentation provided did not appear to be related to

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the questioned costs. As a result, the questioned costs remain as stated.

Finding 2012-02

- e. Table 6 – Jhpiego believes the \$36,136 in ineligible costs for vehicle rentals should be removed because price analysis under 22 CFR, section 22(6).45, may be accomplished in various ways. The HSSP activities were implemented throughout Afghanistan in remote areas where only one rental vehicle company was operating, and that for security reasons, Jhpiego and its sub-recipients used vehicle rental companies that they trusted. Further, management states that Jhpiego did perform a price analysis to determine reasonableness of costs during its review and approval of the invoices submitted by the sub-grantees. According to Jhpiego, the HSSP Grant Officer confirmed the cost of rental vehicles with the HSSP Provincial Coordinators who were based in the provinces where the activities were being implemented. The auditor understands the explanation provided as part of management's response. However, 22 CFR, section 226.45 requires that some form of cost or price analysis shall be made and documented in the procurement files for every procurement action. The auditor did not receive documentation to verify that the procurement files complied with this requirement during our fieldwork, which would have been used to assess cost reasonableness, if provided. As such, the questioned costs remain the same.
- e. Table 7, item 1 – We agree that the ineligible costs in the amount of \$637 for Aga Khan should be removed as the overtime was for a position that did not require prior approval under the cost principles for non-profit organizations. This amount has been adjusted in the report.
- e. Table 7, item 2 – Jhpiego asserted that its approval of MRCA's budget constitutes prior approval of the incentives paid to students to return home, and so \$7,229 in questioned costs should be removed. Management also asserted that the USAID approval of Jhpiego's annual workplan constitutes prior approval, although Jhpiego considers itself the awarding agency concerning the agreement it had with MRCA. Management's assertion was provided subsequent to the auditor's fieldwork. As such, the questioned cost remain as stated and final allowability must be determined by USAID.

Prior Audit Findings

- a. Jhpiego asserted that having less than 1% of costs incurred determined as questioned costs demonstrates Jhpiego has taken corrective action to ensure that supporting documentation is maintained per USAID requirements. The auditor tested a sample of the costs incurred and not the entire population. The testwork results indicate that the condition mentioned in the prior audit remains valid.

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- b.1 Jhpiego management described a program and technical reviews component for monitoring its field offices. This program was initiated in 2013, which was after the period of performance audited. As such, the auditor did not evaluate the effectiveness of this tool in addressing the monitoring deficiencies noted under the HSSP relating to sub-recipients. This program should assist in assuring compliance with USAID requirements, depending on the thoroughness and timeliness of the reviews, and implementation of corrective action as a result thereof.
- b.4 Jhpiego management stated that it recently developed a procurement manual that clearly specifies dollar thresholds for procurements requiring advertising in the newspaper that are now part of Jhpiego's written policies and procedures. Developing a policy manual is the first step in the control process. When combined with proper implementation, the policy manual should address the prior audit finding in this area.
- b.5 Management responded that Jhpiego does not have an internal audit department because auditing is part of the services the Johns Hopkins University provides to Jhpiego, and that Jhpiego has a compliance function that closely reviews and monitors activities and expenses incurred for all donors along with contracts with external auditing firms to perform audits of its country offices when needed. Internal audits provide the recipient with more timely and detailed examination of internal controls and compliance matters that may assist Jhpiego with a more accurate assessment of internal control weaknesses, provide greater leverage for corrective actions, and result in better project management. Internal audit functions also provide skill sets not usually present in program and technical review programs. We recommend that Jhpiego work with JHU to institute a more robust internal audit function for its projects that are linked to program and technical review results.

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