

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-52 Financial Audit

USAID's Higher Education Project: Audit of Costs Incurred by the University of Massachusetts



APRIL
2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On February 23, 2011, the U.S. Agency for International Development (USAID) awarded a cooperative agreement with an initial cost of \$9.9 million to the University of Massachusetts (UMass) to continue USAID's previous work supporting the Afghanistan Higher Education Project (HEP). The project was intended to accomplish the following: 1) restart activities previously accomplished under HEP; 2) increase the Ministry of Higher Education's management capabilities; 3) support professional development of university faculty; 4) maintain the Afghan Master's in Education program at Kabul Education University; and 5) redesign and develop curriculum for undergraduate and graduate Public Policy and Administration programs. After 14 modifications, the total cost of the cooperative agreement was increased to \$18,723,387.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$18,723,387 in expenditures charged to the agreement from February 23, 2011, through February 28, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in UMass' internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the award and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether UMass has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of UMass' Special Purpose Financial Statement. See Crowe Horwath's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, SIGAR is required by auditing standards to review the audit work performed. Accordingly, we oversaw the audit and reviewed its results. Our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with U.S. generally accepted government auditing standards.

April 2015

USAID's Higher Education Project: Audit of Costs Incurred by the University of Massachusetts

SIGAR 15-52-FA

WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified four material weaknesses, one significant deficiency in internal controls, and four instances of noncompliance with the terms and conditions of the cooperative agreement. For one of the internal control weaknesses, the University of Massachusetts (UMass) was unable to provide adequate support for a competitive procurement process for over \$430,000 in subcontracts. As a result, UMass could not demonstrate that these costs were reasonable, and the U.S. government may have been overcharged. In addition, UMass improperly billed the U.S. government for \$131,507 more than the amount required for program costs. Lastly, UMass purchased a Defense Base Act (DBA) insurance policy using U.S. Agency for International Development (USAID) award funds. DBA insurance does not cover cooperative agreements, and Crowe Horwath questioned \$109,664 in UMass' DBA-related costs.

As a result of these internal control deficiencies and instances of noncompliance, Crowe Horwath identified \$560,699 in total questioned costs, consisting of \$519,005 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval—and \$41,694 in ineligible costs—costs prohibited by the agreement, applicable laws, or regulations. The auditors also determined that the U.S. government lost \$1,778 in interest because UMass billed for more funds than required.

Category	Ineligible	Unsupported	Total Questioned Costs
Salary and Wages	\$9,827	\$25,288	\$35,115
Consultants	\$1,650	\$21,058	\$22,708
Travel	\$2,438	\$0	\$2,438
Other Direct Costs	\$810	\$384,053	\$384,863
Allowances	\$16,390	\$66,124	\$82,514
Indirect Costs	\$10,579	\$22,482	\$33,061
Totals	\$41,694	\$519,005	\$560,699

As part of the audit, Crowe Horwath obtained and reviewed prior audit reports and other assessments related to UMass' work on the Afghanistan Higher Education Project. Crowe Horwath identified one compliance review commissioned by USAID. USAID considered the review to be closed with no corrective actions required of UMass. Accordingly, Crowe Horwath determined that no additional corrective action was required pertaining to prior findings.

Crowe Horwath issued a modified opinion on UMass' Special Purpose Financial Statement because UMass recorded incurred costs for salaries and fringe benefits to an incorrect cost category. Additionally, UMass was unable to provide documentation to fully quantify the amounts in error. Because of these errors, Crowe Horwath was unable to determine the amount of adjustments needed to correct the Special Purpose Financial Statement.

WHAT SIGAR RECOMMENDS

Based on the results of the audit, SIGAR recommends that the USAID Mission Director for Afghanistan:

1. Determine the allowability of and recover, as appropriate, \$560,699 in questioned costs identified in the report.
2. Collect \$1,778 in unremitted interest from UMass.
3. Advise UMass to address the report's five internal control findings.
4. Advise UMass to address the report's four noncompliance findings.



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

April 21, 2015

The Honorable Alfonso E. Lenhardt
Acting Administrator
U.S. Agency for International Development

Mr. William Hammink
USAID Mission Director for Afghanistan

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by the University of Massachusetts (UMass) under a U.S. Agency for International Development (USAID) cooperative agreement to support the Afghanistan Higher Education Project.¹ Crowe Horwath's audit covered \$18,723,387 in expenditures charged to the cooperative agreement from February 23, 2011, through February 28, 2014. Our contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

Based on the results of audit, SIGAR recommends that the USAID Mission Director for Afghanistan:

1. **Determine the allowability of and recover, as appropriate, \$560,699 in questioned costs identified in the report.**
2. **Collect \$1,778 in unremitted interest from UMass.**
3. **Advise UMass to address the report's five internal control findings.**
4. **Advise UMass to address the report's four noncompliance findings.**

The results of the Crowe Horwath audit are detailed in the attached report.

We reviewed Crowe Horwath's report and related documentation. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on UMass' Special Purpose Financial Statements. We also express no opinion on the effectiveness of UMass' internal control or compliance with the cooperative agreement, laws, and regulations. Crowe Horwath is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where Crowe Horwath did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-054)

¹ USAID awarded cooperative agreement number 306-A-00-11-00515-00 to UMass to continue USAID's previous work supporting the Afghanistan Higher Education Project, which intended to, among other things, restart activities previously accomplished under HEP, increase the Ministry of Higher Education's management capabilities, and support professional development of university faculty.



University of Massachusetts (UMass)
Special Purpose Financial Statement
Higher Education Project (HEP) Project in Afghanistan
For the Period February 23, 2011, through February 28, 2014
(With Independent Auditor's Report Thereon)

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Transmittal Letter

March 27, 2015

To the President and Management of the University of Massachusetts
70 Butterfield Terrace
Amherst, Massachusetts 01002

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of the University of Massachusetts's ("UMass") cooperative agreement with the United States Agency for International Development ("USAID") to implement the Higher Education Project ("HEP") in Afghanistan.

Within the pages that follow, we have provided a brief summary of the work performed. Following the summary, we have incorporated our report on the Special Purpose Financial Statement, report on internal control, and report on compliance. We do not express an opinion on the summary or any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of the University of Massachusetts, the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID provided both in writing and orally throughout the audit planning and fieldwork phases. Management's final written responses to the findings have been incorporated into the report as an appendix and are followed by the auditor's rebuttal.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of the University of Massachusetts's Higher Education Project.

Sincerely,

A handwritten signature in black ink, appearing to read "Bert Nuehring".

Bert Nuehring, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

The University of Massachusetts (“UMass”) entered into a cooperative agreement with the United States Agency for International Development (“USAID”) to conduct activities intended to implement USAID’s Assistance Objective 3, “Improved Access to Quality Education.” It was part of an overall program to improve access to quality education throughout Afghanistan. Since 2006, HEP has worked with the Ministry of Higher Education (MoHE) on quality assurance and capacity building and with the 18 Faculties of Education (FOEs) that offer four-year teacher education programs, to improve institutional management and to improve the quality of university instruction. In order to achieve the objectives of the Afghanistan Higher Education Project (“HEP”), the following results were expected to be received: 1) Rapid Restart of HEP Activities Accomplished; 2) Increase the Ministry of Higher Education’s capacity to manage higher education; 3) Improve the quality of university teaching through faculty professional development; 4) Continued Afghan Master’s continue the Afghan Master’s in Education Program; and 5) Re-designed and revamped Public Policy and Administration Program. UMass’s HEP project was funded by cooperative agreement number 306-A-00-11-00515-00, which incorporated an initial estimated amount of \$9,981,605. Fourteen modifications to the cooperative agreement were subsequently issued which extended the period of performance to February 28, 2014. Over the course of the project, which spanned from February 23, 2011 to February 28, 2014, UMass incurred costs totaling \$18,723,387.

Throughout the project’s period of performance, UMass collaborated with Indiana University, which served as a major technical partner in the project along with USAID, to execute upon the scope of work identified in the contract. As reported in UMass’s final report on the HEP project dated June 18, 2014, results (unaudited by Crowe) included, but were not limited to:

- Training of 208 faculty members in English Language Literacy ranging from Beginner level to Intermediate;
- Increasing Ministry of Higher Education and University capacity through training in Monitoring and Evaluation, Report Writing, Communication, Office Management, and Coordination and Cooperation affecting 439 staff members across Ministry of Higher Education and Universities;
- A total of 141 students (50 percent females) have been enrolled in the Afghan’s Master’s in education program. To date 118 have graduate, and 22 are set to graduate at the end of 2014;
- Training and workshops on professional development in which 827 participants attended a variety of courses. Of these participants, an average increase of from pre-test to post-test scores was 51 percent;
- A Master’s in Public Policy and Administration Program began during the fall of 2012. A total of 48 students have been enrolled. 18 students have graduated, and another 26 students are currently ongoing in the program; and
- Two follow- up workshops were held for 84 graduates of the Master’s in Education program.

Work Performed

Crowe Horwath LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of UMass’s Higher Education Project.

Objectives Defined by SIGAR

The following audit objectives were defined within the *Performance Work Statement for Financial Audits of Costs Incurred by Organizations Contracted by the U.S. Government for Reconstruction Activities in Afghanistan*:

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the Special Purpose Financial Statement for the award presents fairly, in all



material respects, revenues received, costs incurred, items directly procured by the U.S. Government and balance for the period audited in conformity with the terms of the award and accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

Perform tests to determine whether UMass complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

Determine and report on whether the audited entity has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the special purpose financial statement.

Scope

The scope of the audit included the period February 23, 2011, through February 28, 2014, for the HEP. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement ("SPFS") and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Procurement;
- Reporting; and
- Subrecipient Monitoring

Methodology

To meet the aforementioned objectives, Crowe completed a series of tests and procedures to audit the SPFS, tested compliance and considered the auditee's internal controls over compliance and financial reporting, and determined if adequate corrective action was taken in response to prior audit, assessment, and findings and review comments, as applicable.

For purposes of meeting Audit Objective 1 pertaining to the SPFS, transactions were selected from the financial records underlying the SPFS and were tested to determine if the transactions were recorded in accordance with the basis of accounting identified by the auditee; were incurred within the period covered by the SPFS and in alignment with specified cutoff dates; were charged to the appropriate budgetary accounts; and were adequately supported.

With regard to Audit Objective 2 regarding internal control, Crowe requested and the auditee provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by UMass. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the cooperative agreement executed by and between UMass and USAID, the Code of Federal Regulations, and applicable U.S. Office of Management and Budget Circulars – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, drawdowns of Federal funds, procurements, property and equipment dispositions, and project reports for audit. Supporting documentation was provided by the auditee and subsequently evaluated to assess UMass's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the negotiated indirect cost rate agreements ("NICRA") and associated contract restrictions, and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both UMass and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. One compliance review commissioned by USAID and executed by a third party was performed and a draft report was issued. USAID considered the report to have been closed and no further corrective actions were required of UMass. Accordingly, Crowe did not conduct additional follow-up procedures. No findings were reported pertaining to the HEP within the OMB Circular A-133 audit reports that included HEP within their scope.

Due to the location and nature of the project work and certain vendors and individuals who supported the project still residing in Afghanistan, certain audit procedures were performed on-site in Afghanistan, as deemed necessary.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified five findings because they met one or more of the following criteria: (1) significant deficiencies in internal control, (2) material weaknesses in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the cooperative agreement; and/or (4) questioned costs resulting from identified instances of noncompliance. Other matters that did not meet the aforementioned criteria were communicated either verbally or within a management letter submitted to UMass.

Crowe issued a modified opinion on the SPFS due to the presence of unquantifiable errors within the Salaries and Wages and Fringe Benefit budgetary accounts reported on the SPFS.

Crowe also reported on both UMass's compliance with the applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement and the internal controls over compliance. Four material weaknesses in internal control, one significant deficiency in internal control, and four instances of noncompliance were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. A total of \$560,699 in unique costs was questioned as presented in **TABLE A** contained herein. Crowe also noted that, due to UMass's having drawn down more funds than required to pay eligible costs incurred within the period of performance, \$133,285¹ is payable to the Government, inclusive of \$1,778 in calculated interest lost by the U.S. Government.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to UMass's financial performance under the cooperative agreement. Per communications with UMass and USAID, there were five OMB Circular A-133 reports conducted, and one compliance review conducted for UMass for the fiscal years covered by HEP. Per Crowe's review of the reports, there were no findings pertinent to the HEP within the A-133 reports and USAID closed the recommendations pertaining to the compliance review. No further procedures were considered necessary with respect to the objective.

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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Unique Questioned Costs
2015-01	Award Closeout: Liquidation and Refunding of Federal Advances	\$21,058	\$21,058
2015-02	Cost Incurred After the Period of Performance	\$41,694	\$41,694
2015-03	Special Purpose Financial Statements: Indeterminable Misstatements and Budget Overages	\$0	\$41,694
2015-04	Defense Base Act ("DBA") Insurance	\$109,664	\$130,300
2015-05	Procurement: Cost-Price Analyses and Sole Source Procurements	\$430,399	\$560,699
Total Questioned Costs			\$560,699

Summary of Management Comments

Management partially agreed with finding 2015-01 concerning funds due back to the Government. However, UMass considered adjustments made to direct costs to be allowable such that the amount of Federal funds that had not been liquidated at the end of the closeout period was not required to be returned in full. In addition, management considered the Government's not having instructed UMass to return the balance of Federal funds on-hand as reported in the SF 425 federal financial reports to reflect the Government's concurrence with the University's holding funds beyond the closeout period.

Regarding finding 2015-02, UMass disagreed with the finding as the University considered any disbursements related to obligations incurred during the award period to be eligible for reimbursement regardless of the basis of accounting used in reporting and generating the Special Purpose Financial Statement.

¹ Due to two obligations having remained unliquidated after the conclusion of the 90 day closeout period, Crowe recommended reimbursement of \$21,058 associated with the two transactions. This amount is, therefore, incorporated within Finding 2015-01 recommending repayment. It is also questioned as a component of Finding 2015-02.

UMass partially agreed with finding 2015-03. UMass did not concur that a series of misstatements were included in the Special Purpose Financial Statement or that cash received after the cutoff period for the Statement should not be reported as revenue on the Statement, which was presented on the cash basis of accounting.

UMass disagreed with finding 2015-04 as the University considered the determination of the U.S. Court of Appeals to not be applicable to UMass. In addition, UMass considered certain guidance provided by USAID regarding Defense Base Act insurance coverage to have provided an approval of DBA coverage.

UMass partially agreed with finding 2015-05 as the University indicated that its cost-price analysis documentation contained in procurement files should be improved. The University considered the timing pressure to initiate project activities and the Government's approving UMass's request to proceed with issuing a contract to have served as approval for allowability. Lastly, UMass considered a review of one online training resource and review of a consultant's historical daily pay rates to serve as adequate cost-price analysis documentation for two other sole source procurements.

Regarding finding 2015-06 in the draft report, UMass disagreed with the finding as the University was able to locate documentation that demonstrated the items referenced in the finding were incorrectly recorded in the financial records and constituted bank fees rather than audit service costs. Based on the documentation provided by UMass with the management response, the finding was removed from the final report by the auditor.

References to Appendices

The auditor's reports are supplemented by three appendices - **Appendix A** containing the Views of Responsible Officials; **Appendix B** containing the auditor's rebuttal to management's response; and **Appendix C** containing a detailed listing of transactions paid after the period of performance.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

To the President and Management of the University of Massachusetts
70 Butterfield Terrace
Amherst, Massachusetts 01002

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement ("the Statement") of the University of Massachusetts ("UMass"), and related notes to the Statement, for the period February 23, 2011, through February 28, 2014, with respect to the Higher Education Project in Afghanistan funded by cooperative agreement number 306-A-00-11-00515-00.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Appendix IV of Solicitation ID11140014 ("the Contract"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, 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 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 have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

Management recorded fringe benefit and labor costs incurred in Afghanistan to an incorrect cost account category on the Special Purpose Financial Statement. Due to the error occurring in the underlying financial records and a lack of documentation to fully quantify the amount of the errors, we were unable to determine the amount of the necessary adjustments with respect to salaries and wages and fringe benefit costs.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, revenues received, costs incurred, and balance for the indicated period in accordance with the requirements established by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and on the basis of accounting described in Note 1.

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by UMass in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction in Appendix IV of the Contract and presents those expenditures as permitted under the terms of cooperative agreement number 306-A-00-11-00515-00, which is a basis accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of the University of Massachusetts., the United States Agency for International Development, and the Office of 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 March 27, 2015, on our consideration of UMass's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Crowe Horwath LLP

March 27, 2015
Washington, D.C.

University of Massachusetts
Special Purpose Financial Statement
306-A-00-11-00515-00
For the Period February 23, 2011, through February 28, 2014

					Questioned Costs	
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Notes</u>	
Revenues						
USAID - 306-A-00-11-00515-00	\$ 21,216,813	\$ 18,833,836			A	
Total Revenue	\$ 21,216,813	\$ 18,833,836			4	
Costs Incurred						
Salary and Wages	\$ 5,624,592	\$ 6,000,989	\$ 9,827	\$ 25,288	3, 5 B, D	
Fringe	510,567	187,320				
Consultants	1,537,623	1,188,017	1,650	21,058	B, D	
Travel	565,628	405,218	2,438		B	
Other Direct Costs	4,424,902	4,021,316	810	384,053	A, B, C, D	
Equipment	481,797	115,026				
Sub-Recipients	472,303	472,303			8	
Participant Training Costs	1,343,962	847,136				
Allowances	1,815,914	1,603,361	16,390	66,124	A, B, C	
Total Direct Costs	16,777,288	14,840,685				
Indirect Costs	4,439,525	3,882,702	10,579	22,482	A, B, C	
Total Costs Incurred	\$ 21,216,813	\$ 18,723,387	\$ 41,694	\$ 519,005		
Balance		\$ 110,449			6	

The accompanying notes to the Special Purpose Financial Statement are an integral part of this Statement.

University of Massachusetts ("UMass")
Notes to the Special Purpose Financial Statement
For the Period February 23, 2011, through February 28, 2014

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Cooperative Agreement Number 306-A-00-11-00515-00 for the USAID Higher Education Project for the period February 23, 2011, through February 28, 2014. Because the Statement presents only a selected portion of the operations of the University of Massachusetts, it is not intended to and does not present the financial position, changes in net assets, or cash flows of University of Massachusetts. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Cooperative Agreement Number 306-A-00-11-00515-00. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on the cash basis and, therefore, are not reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Office of Management and Budget ("OMB") Circular A-21, *Cost Principles for Educational Institutions*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. (Refer to G-07-IR – *Exchange rate policy and Final Financial Risk Management Plan.*).

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which the University of Massachusetts was entitled to receive from USAID for allowable, eligible costs incurred under the cooperative agreement during the period of performance.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved 306-A-00-11-00515-00 adopted as a component of the Mod #11 to the cooperative agreement dated April 30, 2013.

Note 6. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the cooperative agreement and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. The Balance currently includes Advance Payments not refunded pending reconciliation.

Note 7. Currency

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

(Continued)

Note 8. Subrecipients

Indiana University incurred costs of \$ 472,302.59. All invoices for incurred costs were paid.

Note 9. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to the February 23, 2011, through February 28, 2014, period of performance. Management has performed their analysis through March 27, 2015.

Notes to the Questioned Costs Presented on the Special Purpose Financial Statement²

Note A. Award Closeout: Liquidation and Refunding of Federal Advances

Finding 2015-01 identified \$21,058 in costs that were unpaid as of the end of the closeout period and, therefore, are ineligible for reimbursement under the award. This amount is questioned. The finding also identifies \$110,449 in excess Federal funds that were drawn down by UMass and not remitted to the Government. This amount, plus associated interest charges, is recommended for reimbursement to the Government.

Note B. Costs Incurred After the Period of Performance

Finding 2015-02 identified \$41,694 in questioned costs due to the costs having been paid after the conclusion of the period of performance. Under the cash basis of accounting utilized by UMass, only costs paid as of the February 28, 2014, end of the period of performance, are eligible for reimbursement by the Government.

Note C. Defense Base Act (“DBA”) Insurance

Finding 2015-04 identified \$109,664 in questioned costs due to UMass entering into an insurance policy for DBA insurance. According to the U.S. Department of Labor, which administers DBA, financial assistance awards are not covered by DBA.

Note D. Procurement: Cost Price Analyses and Sole Source Procurements

Finding 2015-05 questions \$430,399 due to UMass’s not providing adequate evidence to support the reasonableness of costs incurred by vendors who were selected through noncompetitive procedures.

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

To the President and Management of the University of Massachusetts
70 Butterfield Terrace
Amherst, Massachusetts 01002

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of the University of Massachusetts ("UMass"), and related notes to the Statement, for the period February 23, 2011, through February 28, 2014, with respect to the Higher Education Project in Afghanistan funded by cooperative agreement number 306-A-00-11-00515-00. We have issued our report thereon dated March 27, 2015, within which we have qualified our opinion.

Internal Control over Financial Reporting

UMass's management is responsible for establishing and maintaining effective internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the contract; and transactions are recorded properly to permit the preparation of the Statement in conformity with the basis of presentation described in Note 1 to the Statement. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Statement for the period February 23, 2011, through February 28, 2014, we considered UMass's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of UMass's internal control. Accordingly, we do not express an opinion on the effectiveness of UMass'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 Statement will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies noted in Findings 2015-01, 2015-02, 2015-03, and 2015-05 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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 noted in Finding 2015-04 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

We noted certain matters that we reported to UMass's management in a separate letter dated March 27, 2015.

The University of Massachusetts's Response to the Findings


The University of Massachusetts's response to the findings was not subject to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of the University of Massachusetts., the United States Agency for International Development, and the Office of 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.


Crowe Horwath LLP

March 27, 2015
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the President and Management of the University of Massachusetts
70 Butterfield Terrace
Amherst, Massachusetts 01002

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement ("the Statement") of the University of Massachusetts. ("UMass"), and related notes to the Statement, for the period February 23, 2011, through February 28, 2014, with respect to the Higher Education Project in Afghanistan funded by cooperative agreement number 306-A-00-11-00515-00. We have issued our report thereon dated March 27, 2015, within which we have qualified our opinion.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract is the responsibility of the management of the University of Massachusetts.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2015-01, 2015-02, 2015-04, and 2015-05 in the accompanying Schedule of Findings and Questioned Costs.

The University of Massachusetts's Response to the Findings

The University of Massachusetts's response to the findings was not subjected to the auditing procedures applied in the audit of the special purpose financial statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of the University of Massachusetts., the United States Agency for International Development, and the Office of 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.

A handwritten signature in dark ink that reads "Crowe Horwath LLP". The signature is written in a cursive, flowing style.

Crowe Horwath LLP

March 27, 2015
Washington, D.C.

SECTION I: SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2015-01: Award Closeout: Liquidation and Refunding of Federal Advances

Material Weakness and Non-Compliance

Criteria: Per 22 CFR Part 226.71(b), "Unless USAID authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions."

22 CFR Part 226.71(d) states, "The recipient shall promptly refund any balances of unobligated cash that USAID has advanced or paid and that is not authorized to be retained by the recipient for use in other projects."

22 CFR Part 226.2 defines unliquidated obligations as follows: "For financial reports prepared on a cash basis, [unliquidated obligations] means the amount of obligations incurred by the recipient that have not been paid."

Condition: As of UMass's most recent Federal draw down occurring on May 27, 2014, the University had drawn \$18,833,836. The University reported \$18,723,387 in program costs. The balance of \$110,449 was not returned to the Government after the conclusion of the 90 day closeout period, but rather was held by UMass in its university-wide accounts. Per discussion with UMass, the Agreement Officer did not provide approval for the \$110,449 to be retained by the University.

In addition, we identified two obligations that remained unliquidated (i.e., unpaid) as of May 28, 2014 - the conclusion of the 90-day closeout period. Due to the charges not having been liquidated within 90 days of the performance period's ending, the funds that were advanced to UMass for the charges were required to be refunded to the Government. The amount, however, was not refunded. The transactions, including associated indirect costs charges, appear below:

Description	Journal Date	Voucher/ Batch ID	Transaction Amount	Name	Payment Date
Insurance	26-Jun-14	X0282140	15,025.00	AON RISK INSURANCE SERVICE WE	6/30/2014
F & A Expense- Distributed Rev	26-Jun-14		5,108.50	F&A	
Messenger Services	14-Jul-14	X0288306	690.00	PAXTON VAN LINES INC	7/15/2014
F & A Expense- Distributed Rev	19-Jul-14		234.60	F&A	

Questioned costs: None. However, \$110,449 in excess drawdowns was due to be refunded to the Government. \$21,058 associated with unliquidated obligations for which funds were advanced was also due to be refunded to the Government. Utilizing the U.S. Department of the Treasury Bureau of the Fiscal Service's interest calculator for overdue payments at the 2.000 prompt payment interest rate, \$1,778 in interest is owed to the Government. The total amount payable to the Government is \$133,285.

Effect: UMass retained excess cash thus resulting in the Government's losing potential interest income.

Cause: UMass chose to draw more funds than needed based on its understanding that, after May 2014, no additional draws could occur and funds would not be available to reimburse the University for any remaining charges. In addition, a process was not in place to ensure that all remaining Federal dollars are returned to the Government promptly following the conclusion of the closeout period.

Recommendation: We recommend that UMass remit payment to the Government in the amount of \$133,285. We further recommend that UMass develop closeout procedures that address liquidation and refund requirements to prevent a similar matter from re-occurring in the future.

(Continued)

Finding 2015-02: Costs Incurred After the Period of Performance

Material Weakness and Non-Compliance

Criteria: Modification 10 to the cooperative agreement states: "The purpose of this modification is to extend the period of performance of the cooperative agreement for six-month no-cost extension from September 1, 2013, to February 28, 2014, to ensure that all project activities and deliverables are realized before conclusion of Higher Education Project (HEP) and to allow completion of field-based close-out activities and the preparation of final project reports, at no additional cost to the U.S. Government."

Title 22, Part 226.2 defines outlays or expenditures on the cash basis as "the sum of cash disbursements for direct charges for goods and services, the amount of indirect expense charged, the value of third party in-kind contributions applies and the amount of cash advances and payments made to subrecipients."

Note 2, *Basis of Accounting*, to the Special Purpose Financial Statement indicates that, "Expenditures reported on the Statement are reported on the cash basis."

UMass implemented a procedure during which the business analyst would conduct an initial review of expenditures for allowability and, subsequent to her review, would submit the expenditures to the Controller's Office for review. The Research Accountant within the Controller's Office would then review the expenses for allowability and record the charges within the accounting system.

Condition: UMass charged \$31,115 to the award for costs that were paid after the February 23, 2011, through February 28, 2014, period of performance. UMass operated on the cash basis of accounting, which requires recognition of program costs at the time they are paid. Accordingly, costs that were paid after February 28, 2014, are ineligible for reimbursement by the Government.

Per discussion with UMass, the costs pertained to award closeout activities that required more time than expected due to resource constraints, and various discussions were held with USAID regarding closeout activities. During our review of the approved closeout plan, no activities were identified that included completion dates after the period of performance. No written documentation was available that indicated the Agreement Officer's approval of costs to be incurred subsequent to the period of performance.

The applicable transactions appear in **Appendix C** to this report.

Questioned costs: \$41,694, inclusive of the \$31,115 in costs presented above and an associated \$10,579 in indirect costs using the 34 percent rate specified in the NICRA.

Effect: The Government funded activities that it was not obligated to pay due to the period of performance having elapsed.

Cause: Per discussion with UMass, closeout activities took longer than expected due to resource constraints. The University considered the closeout charges to be necessary and allowable. In addition, the procedures implemented by UMass for allowability reviews did not operate effectively such that costs incurred beyond the eligible project period were allowed to be charged to the award.

Recommendation: We recommend that UMass either (1) provide evidence of the Agreement Officer's approval that activities continue beyond the period of performance and stating that costs associated with such activities are eligible for reimbursement; or (2) reimburse the Government for the \$41,694 in costs incurred after the period of performance.

Finding 2015-03: Special Purpose Financial Statement: Indeterminable Misstatements and Budget Overage

Material Weakness

Criteria: UMass established a process by which the Research Accounting Manager prepared the Special Purpose Financial Statement from the University's books of record. The Assistant Controller was then tasked with reviewing and approving the Statement prior to its provision for audit.

Modification 10 to the cooperative agreement states: "The purpose of this modification is to extend the period of performance of the cooperative agreement for six-month no-cost extension from September 1, 2013, to February 28, 2014, to ensure that all project activities and deliverables are realized before conclusion of Higher Education Project (HEP) and to allow completion of field-based close-out activities and the preparation of final project reports, at no additional cost to the U.S. Government."

Condition: Non-financial data elements on the Statement and within the notes were incorrect, including the award number and references to policies and procedures. Management corrected the award number shown on the Statement and within the notes; however, Note 3 to the SPFS, which addresses the foreign currency conversion method utilized during the period of performance was uncorrected. Presently, the note reflects two documents – the *Final Financial Risk Management Plan* and *G-07-IR – Exchange rate policy*. Neither of the two documents includes or presents the process executed by management to convert local currency to United States dollars.

Further, we identified a number of transactions that were paid after February 28, 2014, which was the cutoff date of the Statement and concluded the period of performance. Similarly, four Federal draws were received after February 28, 2014, and should not have been reported as revenue on the cash basis of accounting. The total amount of the drawdowns was \$671,545. Evidence of the Assistant Controller's review and approval was not provided and the errors were not detected and corrected through other processes.

UMass presented a special purpose financial statement that included a series of misstatements that were undetected by management. Management reviewed the errors and identified numerous revisions. The revisions were needed in response to the following observations:

1. UMass indicated that field labor charges could not be journalized as labor costs in the home office accounting system and, therefore, were incorrectly coded to other accounts, including Management Consultants and Program Coordinators appearing within the Consultants and Other Direct Costs accounts on the SPFS.
2. Certain charges recorded as labor expenses were related to allowances and had to be re-classified accordingly.

Prior and subsequent to making the adjustments, management did not provide adequate information that permitted the full reproduction reclassification of labor costs. When reviewing the amounts journalized under the accounts noted as being included within the salary and wages account, the total amount of costs incurred is \$7,281,601. This exceeds the amount reflected on the Statement by \$1,280,612. UMass represented that certain consultant costs were recorded in part to salaries and wages; however, support for the segregation was not provided in an auditable format.

Further, fringe benefit charges for field labor - estimated by UMass as 11 percent of field labor costs, or \$353,201 - remain misclassified as they are reflected within the Salary and Wages account. Due to the degree and nature of the errors and the level of detail available, the extent of the misclassifications between the Consultants, Salary and Wages, and Fringe Benefits accounts is indeterminable.

Lastly, per review of management's revised SPFS, and considering the aforementioned fringe benefit matter, UMass exceeded the approved categorical budget amounts for salaries salaries/wages and fringe benefits. The salaries and wages category was exceeded by a minimum of \$376,397.

Costs Incurred	Approved Budget	Actual Costs Incurred		
		Original	Revised	Change
Salary and Wages	\$ 5,624,592	\$ 3,354,230	\$ 6,000,989	\$ 2,646,759
Fringe	510,567	187,320	187,320	-
Consultants	1,537,623	2,057,553	1,188,017	(869,536)
Travel	565,628	329,126	405,218	76,092
Other Direct Costs	4,424,902	5,879,499	4,021,316	(1,858,184)
Equipment	481,797	244,082	115,026	(129,057)
Sub-Recipients	472,303	472,303	472,303	-
Participant Training Costs	1,343,962	1,001,754	847,136	(154,618)
Allowances	1,815,914	1,314,823	1,603,361	288,538
Total Direct Costs	\$ 16,777,288	\$ 14,840,690	\$ 14,840,685	\$ (6)
Indirect Costs	4,439,525	3,882,702	3,882,702	-
Total Costs Incurred	\$ 21,216,813	\$ 18,723,392	\$ 18,723,387	\$ (6)

Questioned costs: None

Effect: The Statement may include errors that provide users of the Statement with an incorrect understanding of the nature and amounts of costs incurred by UMass under the award.

Cause: UMass's internal controls over the preparation of the Special Purpose Financial Statement were ineffective. In addition, UMass did not have a process in place to consistently classify cost elements into Federal budget categories.

Recommendation: We recommend that UMass draft a procedure for the development of special purpose financial statements that includes a written instruction that senior management review and approve the document in writing prior to submission for audit. We further recommend that UMass develop and document a procedure that allows the university to monitor budgeted to the actual expenditures pursuant to the Federally-approved budget.

Finding 2015-04: Defense Base Act (DBA) Insurance

Significant Deficiency and Non-Compliance

Criteria: Per the U.S. Department of Labor, "Section 1651(a)(4) of the DBA covers employment under a "contract entered into with the United States" where such work is to be performed outside the continental United States for the purpose of public work. 42 U.S.C. § 1651(a)(4). The Department of Labor agrees with the decision of the U.S. Court of Appeals for the Second Circuit in *University of Rochester v. Hartman (Vishniac)*, 618 F.2d 170 (2nd Cir. 1980), that work performed pursuant to a grant is not covered under section 1651(a)(4) because Congress has enacted statutes to distinguish grants from contracts. Similarly, work performed pursuant to a cooperative agreement is not covered under 1651(a)(4).

Section 1651(a)(5) of the DBA, however, covers employment under a "contract approved and financed by the United States" if such work is to be performed outside the continental United States under the Foreign Assistance Act. Thus, if the recipient of the federal funding (whether provided pursuant to a contract, grant or cooperative agreement) hires a contractor or subcontractor to perform work that is financed by funds supplied under the Foreign Assistance Act, it is likely covered by the DBA under Section 1651(a)(5). The Benefits Review Board has recognized that Section 1651(a)(5) does not require the injured employee to have been working under a contract to which the United States is a party. See *Delgado v. Air Serve International*, 47 BRBS 39 (2013). It is sufficient that the claimant's employment was performed under a contract that was "approved and financed" by the United States."

OMB Circular A-21, *Cost Principles Applicable to Institutions of Higher Education*, states that costs of insurance required or approved, and maintained, pursuant to the sponsored agreement are allowable.

Modification No. 10 to the cooperative agreement states: "The purpose of this modification is to extend the period of performance of the cooperative agreement for six-month no-cost extension from September 1, 2013, to February 28, 2014, to ensure that all project activities and deliverables are realized before conclusion of Higher Education Project and to allow completion of field-based close-out activities and the preparation of final project reports, at no additional cost to the U.S. Government."

Condition: UMass purchased and charged to the award the cost of Defense Base Act ("DBA") insurance. Due to UMass having received a cooperative agreement rather than a contract, the award is not considered to be covered. Accordingly, the insurance policy is not considered to be necessary and may not be enforceable. A total of \$81,839 in costs were incurred for the DBA insurance provider.

We noted that UMass provided copies of budget notes referencing DBA insurance and that denoted the recipient as planning to "provide [its] expatriate staff with the required insurance (medical, evacuation, defense base act and special (K&R) insurance if not provided by the University). [UMass has] budgeted for consultant medical evacuation, DBA, and K&R." Per our review of the budget notes and the budget revision, USAID did not expressly approve DBA coverage, and the notes did not specify that optional DBA insurance would be considered for employees in addition to consultants, which may qualify as subcontractors required to be covered by DBA.

In addition, per review of the 2013-2014 insurance policy, the premium included the period July 6, 2013, through July 6, 2014, which extends beyond the February 28, 2014, end of the period of performance. The total value of the policy was \$16,163, which agrees to the amount recorded to the financial ledger. Per discussion with the business analyst, an assessment was performed and the charges were to be split between two awards. The premium cost associated with the March - July period (\$5,387) is questioned.

Questioned costs: \$109,664, inclusive of \$81,839 in DBA insurance costs and \$27,825 in associated indirect costs. Of the \$109,664 in total questioned costs pertaining to DBA insurance charges, \$5,387 in costs were incurred after the period of performance and are questioned as a result of noncompliance with related period of performance requirements as well.

Effect: The Government may have subsidized insurance costs for other projects by paying the total amount of the premium rather than a pro-rated portion. In addition, the Government may have funded a policy that would not be enforceable or applicable to the authorized work.

Cause: UMass considered the purchase of a DBA policy to be a core element of recruiting expatriates for the project and for obtaining other insurance. Therefore, UMass elected to pursue DBA coverage.

Recommendation: We recommend that UMass provide documentation showing approval from the Government for the purchase of DBA insurance covering UMass employees under the cooperative agreement, provide a legal memorandum to the Government that details if and why the coverage is a) required and b) enforceable for a project funded by a cooperative agreement, or otherwise refund the Government for the full amount of \$109,664.

Should the policy be considered an eligible expense, then we recommend that UMass either provide support for the allowability of the insurance policy costs associated with coverage provided subsequent to the period of performance or otherwise refund the Government \$5,387.

Finding 2015-05: Procurement: Cost-Price Analyses and Sole Source Procurements

Material Weakness and Non-Compliance

Criteria: In accordance with the provisions of Title 22, Part 226 of the Code of Federal Regulations containing USAID's financial assistance regulations applicable to UMass's HEP, UMass was required to comply with the following regulations:

§ 226.43 Competition

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.

§ 226.45 Cost and price analysis.

Some form of cost or price analysis shall be made and documented in the procurement files in connection with 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 analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability.

§ 226.46 Procurement records.

Procurement records and files for purchases in excess of the small purchase threshold shall 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.

Condition: UMass procured the services of three vendors – RONCO Consulting Corporation ("RONCO"), Rubyna Ajanee, and Steve Kroll & Associates - to provide security, education consulting, and compliance consulting services. Through review of the procurement files and discussion with UMass, we noted that the vendors were not competitively selected and evidence of cost-price analyses was not provided. In addition, the justifications for sole source selection were considered inadequate. Per review of the procurement support, the selection of Rubyna Ajanee was based on the following, "Ms. Ajanee is willing and available to travel to Kabul and given her skill set is well suited to provide the required services." Documentation indicating that other education consultants with similar skill sets were unwilling to travel was not provided. Further, the cost comparison support noted in the justification stated only that "daily rate is justified by her history."

With respect to Steve Kroll & Associates, the justification form indicated that the selection was restricted to the vendor for the following reason: "This candidate was selected based upon experience, availability and individual resources available to perform the consultancy." No cost comparison information or narrative was included on the form. Based on the presence of other compliance consultants within Massachusetts and Afghanistan, the justification was not considered adequate in the absence of additional support. UMass indicated that bids were solicited for the consulting services; however, a comparative bid analysis was not provided.

Finally, with respect to RONCO, UMass's justification document noted that the provision of security services was restricted to RONCO and that a comparison of the new RONCO contract amount to previous contracts and bids from other private security companies for previous HEP contracts had been conducted. A copy of the comparison was not provided for audit.

In the absence of documentation from which to determine the reasonableness of costs incurred, the total transaction amount for each vendor is questioned. UMass indicated that they received USAID approval to proceed with the subcontract awards; however, per our review of correspondence from the Government, the USAID Agreement Officer did not approve the reasonableness and allowability of the fixed and variable rates, as applicable.

Vendor	Rate Structure	Total Charges to HEP
RONCO	Various - includes fixed and variable rates by level	\$384,053
Rubyna Anjaee	\$650 per day, excluding allowances and travel reimbursement	\$25,288
Steve Kroll & Associates	\$870 per day, excluding allowances and travel reimbursement	\$21,058
TOTAL		\$430,399

Questioned costs: \$430,399

Effect: The Government may have been overcharged as a result of UMass selecting vendors in competitive industries using noncompetitive procedures.

Cause: UMass considered the Government's concurrence with the use of a vendor to be an approval of cost reasonableness as well. UMass did not specify why copies of cost price analyses could not be provided.

Recommendation: We recommend that UMass either produce documentation to support the reasonableness of costs incurred by the vendors in Afghanistan or otherwise reimburse the Government for the costs incurred by each vendor.

We further recommend that UMass issue a written reminder to individuals responsible for approval of noncompetitive procurements that reiterates the requirement for documented cost-price analyses and that indicates noncompetitive solicitations should not be approved without the analyses.

SECTION 2: SUMMARY SCHEDULE OF PRIOR AUDIT AND REVIEW FINDINGS

Per discussion with the University of Massachusetts and USAID, one compliance review had been conducted pertaining to the Higher Education Project (“HEP”) in Afghanistan and five audits conducted in accordance with OMB Circular A-133 included HEP within their scope. There were no findings pertaining to HEP within the five OMB Circular A-133 audit reports. With respect to the compliance review, we obtained and reviewed correspondence between USAID and UMass indicating that the compliance review was closed and no additional corrective action was required. Accordingly, Crowe Horwath did not conduct additional procedures specific to identifying and evaluating whether UMass adequately implemented corrective action as pertaining to prior findings and observations.

Appendix A: Views of Responsible Officials

Due to varying file types, the contents of the management response are not reflected in our table of contents.



**UNIVERSITY OF MASSACHUSETTS
AMHERST**

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Office of the Controller

voice: 413.545.0806
fax: 413.545.6088

March 20, 2015

Mr. Eric J. Russell, CIA, CGAP, CGMS, MPA
Crowe Horwath LLP
10 W. Broad Street, Suite 1700
Columbus, OH 43215

Dear Mr. Russell,

The University of Massachusetts Amherst (UMass) is in receipt of your draft report pertaining to Crowe Horwath's financial audit of the Afghan Higher Education Project (HEP) awarded under USAID cooperative agreement number 306-A-00-11-00515-00 for the period February 23, 2011, through February 28, 2014. Thank you for the opportunity to provide written management responses to the draft findings and questions identified in your audit. Detailed responses, along with back up documentation and supporting materials, are attached for your consideration. Please note that our responses do reference other documents that were submitted subsequent to the completion of the fieldwork.

UMass assumed the lead recipient position for the Afghan HEP project in 2011 under rather unusual circumstances following the suspension and removal in November 2010 of the original lead organization. On January 14, 2011, following USAID's urgent solicitation, UMass Amherst submitted its program proposal for the period 2/1/11 through 1/31/2012. Over the course of the subsequent weeks, USAID and UMass negotiated program details, costs and administrative requirements. UMass was asked to respond to specific technical and programmatic interrogatories from USAID and to provide substantial documentation addressing risk management, project organizational structure, financial management, security plans, et cetera. There was a sense of urgency on the part of both USAID and UMass to finalize an award so as to prevent a disintegration and dismantling of existing HEP resources in the field, as well as to maintain momentum for the important work being done. Ultimately, UMass signed the cooperative agreement on March 4, 2011, after substantial input and feedback from USAID regarding project specifics. A detailed work plan and affirmative provisions for security were also required by USAID subsequent to execution of the agreement.

UMass is proud of the work it accomplished in Afghanistan, and we appreciate the work of Crowe Horwath and the Special Inspector General for Afghan Reconstruction (SIGAR) in ensuring accountability, compliance and transparency.

Very truly yours,

A handwritten signature in dark ink, reading "Jennifer A. Donais".

Jennifer A. Donais, MPA, CRA
Assistant Vice Chancellor for Research & Engagement

A handwritten signature in dark ink, reading "Robert A. Liebowitz".

Robert A. Liebowitz
Controller



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Response to Crowe Horwath's Findings
Associated with HEP in Afghanistan USAID Audit
Period: 2/23/11 through 2/28/14

▪ **FINDING 2015-01: Award Closeout: Liquidation and Refunding of Federal Advances**

Response: The University agrees in part with the findings of Crowe Horwath. UMass Amherst agrees that it is in possession of \$76,031 in unspent funds that must be returned to the government. Based upon the most recent accrual report information (submitted 3/3/15) and the expected revised final FSR due upon completion of this audit, drawn funds in the amount of \$18,757,805 were spent on allowable project expenses in consultation with USAID.

As of 5/30/14, UMass submitted a final FSR showing cash on hand in the amount of \$109,464. This figure is based upon a final draw conducted on 5/23/14 in the amount of \$135,362.78. Throughout the award, UMass would provide university funds to the field for operating expenses prior to drawing funds from the federal government. Draws would be processed only after a thorough review and reconciliation of expenditures. These reviews often involved communications with field staff and requests for additional support for the expenses. Due to the logistical complexity of operating in Afghanistan, these reconciliations and review processes often required significant time to complete. Knowing that substantial costs had been incurred through February 28, 2014 but not yet fully reconciled, the university on May 23, 2014 as part of their final draw included estimated insurance costs through February 2014 as well as project costs for unreconciled expenditures associated with the UMass advance to the program. These funds were reconciled, and the university has determined that \$76,031 needs to be returned to the federal government with interest.

UMass communicated that there was outstanding cash via the final FSR 425 submitted in May 2014 showing cash on hand in the amount of \$109,464. UMass had subsequent communication with USAID throughout September 2014 regarding accrual reports where UMass submitted a revised FSR 425 and stated, *"the funds on hand are awaiting reconciliation which we hope to achieve upon consultation with the USAID auditors that are scheduled to audit this award."*

UMass continued to communicate present cash on hand with USAID through their requests to confirm and update payment information in November 2014 and accrual information in December 2014 and March 2015.

Per 22 CFR 226.72b Subsequent adjustments and continuing responsibilities:

“After closeout of an award, a relationship created under an award may be modified or ended in whole or in part with the consent of USAID and the recipient, provided the responsibilities of the recipient referred to in paragraph 226.73(a), including those for property management as applicable, are considered and provisions made for continuing responsibilities of the recipient, as appropriate.”

The continued communications regarding the outstanding cash on hand provided an opportunity for reconciliation with USAID in order to further bring closure to the funds advanced to UMass Amherst. UMass is fully committed to refunding any advanced funds and associated interest to USAID upon final reconciliation.

▪ **FINDING 2015-02: Costs Incurred After the Period of Performance**

Response: The University respectfully disagrees with the finding that expenses in Appendix C were ineligible for reimbursement by the government. Costs identified in Appendix C were those associated with activities or services provided before the period of performance ended. The actual payment of the obligation may have occurred after the end date of the grant but the costs/expenses were for obligations that occurred prior to the end date of the award. Per 22 CFR 226 Subpart D After-the-Award Requirements: Section 71b. Closeout procedure:

“Unless the Federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions.”

Please also note per 22 CFR 226.2 Definitions:

“Obligations means the amounts of orders placed, contracts and grants awarded, services received and similar transactions during a given period that require payment by the recipient during the same or a future period.”

Based upon these references and the attached documentation (Attachment 1), expenses outlined in Appendix C were *“obligations that incurred under the award.”*

There are twenty-eight items in Appendix C totaling \$15,399.93 that are expenses incurred prior to the 2/28/14 end date. Due to the fact that they were paid out during the 90-day closeout period, they conform to the CFR 226 Subpart D Section 71b Closeout Procedure.

The two items totaling \$15,715 paid after the 90 days were part of the assessment related to the advance. Therefore, UMass received the funding within the 90-day closeout period and simply needed to reconcile these costs with the cash on hand as of 5/29/14.

The delay in payment of these two items was due to the complex nature of this award. The premium, viewed as an annual cost, proved challenging for the DBA Insurance provider to calculate and invoice, because the insurance coverage was continued on the new UMass program through USAID via the FHI subcontract. The insurance provider submitted an invoice on 5/30/14 which was unable to be included in our UMass PeopleSoft Financial system in time for the final draw. Therefore, the insurance premium amount was estimated in the advance and then paid out in June 2014. The insurance costs amounting to \$15,025 were project expenses incurred within the period of performance.

The University recognizes that the \$690 Paxton Van Lines shipping costs were incurred outside of the period of performance. However, this cost was necessary to ship final documentation associated with the award back to UMass (as instructed by USAID) to comply with the requirement deeming it necessary to retrieve all original documentation from the field. This shipment could only have occurred after all items in the field were settled and documentation was compiled. These events occurred after the 90-day closeout.

▪ **FINDING 2015-03: Special Purpose Financial Statement: Indeterminable Misstatements and Budget Overage**

Response: The University agrees with one part of this finding pertaining to Note 3, SPFS where UMass did not specify a procedure regarding foreign currency conversion method. However, during face-to-face discussions with auditors, UMass believed that the information was conveyed and supplied by the attached “Exchange Rate Decisions and Procedures in regard to the HEP-Afghanistan” document (Attachment 2) during the course of the audit.

The University respectfully disagrees with the finding that draws received after 2/28/14 should not have been reported as revenue. The draws were performed after 2/28/14 because the expenses incurred prior to 2/28/14 were not posted to the University Financial System until after 2/28/14. Based upon 22 CFR 226 Subpart D After-the-Award Requirements: Section 71b. Closeout procedure:

“Unless the Federal awarding agency authorizes an extension, a recipient shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions.”

These drawdowns, including the advance of funds, were processed during the closeout period.

All draws were reviewed and approved by the Research Receivables Manager as evidenced by her signature on the “Letter of Credit Draw” form. The Assistant Controller reviewed and approved USAID Letter of Credit reports as evidenced by his signature on the “Cash on Hand –USAID Amherst” form. Both individuals verify that draws were within the 90-day closeout period.

The University respectfully disagrees that the Special Purpose Financial Statement (SPFS) included a series of misstatements. The original **DRAFT** SPFS reflected the expenses based on the UMass PeopleSoft Financial system with minimal reclassifications. When it was communicated that the auditors were unable to match the figures that were presented on the **DRAFT** SPFS, UMass provided the auditors with the detailed monthly schedules that had been prepared and reviewed along with the system generated reports that were reconciled to the monthly schedules. This information was sent to the auditors via email on 1/31/15. This monthly schedule was used by UMass to track expenses with the budget. It was not initially known that the detail support that existed needed to be presented.

There are inherent challenges in funding a complex operation in Afghanistan that had to be managed carefully. In particular, one challenge was how UMass had to pay expenses in Afghanistan. UMass advanced University funds to pay expenses in the field. The Afghanistan office used a QuickBooks system to track Afghanistan field costs and then sent the expense information to the UMass home office to journalize into the UMass PeopleSoft Financial System to allow for Letter of Credit drawdowns from the federal government. The Afghanistan field expenses were 1) reviewed and identified in the field, 2) submitted to UMass' home office and scrutinized for appropriateness and proper classification; 3) finally, the expenses were scrutinized by the Controller's Office and journalized into the UMass PeopleSoft Financial System. In addition, the monthly schedule was prepared by the UMass home office and then reviewed by the Controller's Office.

The reporting discrepancy between the UMass Financial System and the detail monthly schedules is due to a system configuration that only allows posting of payroll transactions directly from UMass' PeopleSoft Payroll System. Journal entries cannot be posted to wages and fringe. UMass had to track these expenditures in substitute account codes that were configured to allow journal entries. The salary, wages, and fringe costs that were posted to substitute account codes were manually reclassified on the UMass monthly schedules to salary and wages. Other overseas costs, such as bank fees, were also identified using the best account code available and then reclassified when necessary. In addition, certain allowance costs (danger pay) used restricted payroll accounts in PeopleSoft. These had to be manually reclassified to the allowance budget category on the UMass monthly schedule.

The monthly schedule was compared to the monthly PeopleSoft generated report (UMGM 7062- Grant Detail Transaction Report). When it was determined that the verification of the SPFS figures were difficult for the auditors to review, UMass provided the reconciled monthly schedule and monthly 7062 reports to the auditors for their review along with the **REVISED** SPFS.

The University agrees in part with the finding regarding exceeding the salaries and wages budget category. The amount at which salary and wages exceeded the budget was \$376,397. Part of that difference is attributed to the following:

1. Since UMass was journalizing the field payroll, UMass did not separate out field fringe costs and allowed them to be included with the salary and wages. A review of the fringe transactions that were journalized to the Salaries and Wages expense category identified \$370,241.58 in fringe that was classified as Salary and Wages.
2. The excess salary and wages exceed the Salary and Wages budget category by less than 1.8% of the total budget.

The University believed that since the award was to be closed out there was no need to request USAID to do a re-budget for this immaterial amount.

UMass is committed to improving its interactions with audit personnel. In the future, Senior UMass staff will more effectively document their review of material submitted to audit personnel. In addition, UMass Senior staff will make a concerted effort to confirm with audit personnel that provided documentation is sufficient.

▪ **FINDING 2015-04: Defense Base Act (DBA) Insurance**

The University respectfully disagrees with Crowe Horwath's questioning the allowability of the cost of Defense Base Act ("DBA") insurance under the awarded cooperative agreement (306-A-00-11-00515-00). In support of its position on allowability, UMass offers the following facts for consideration:

- USAID Acquisition & Assistance Policy Directive (AAPD) 12-01 (<http://www.usaid.gov/work-usaid/aapds-cibs>), "Defense Base Act (DBA) Insurance for 2010-2015" issued by the Director, USAID, Office of Acquisition & Assistance, states that, "If assistance awardees elect to purchase DBA insurance covered, they are permitted to use the rates listed below. Costs for such insurance are an allowable expense." This AAPD was active during the time period of the award and confirms allowability of the DBA coverage under assistance agreements.
- In addition, the Automated Directives System (ADS) 302 (<http://www.usaid.gov/ads/policy/300/302>), "Help Guide for DBA Coverage" states that, "Although the Defense Base Act rate does not apply to grants and cooperative agreements, recipients who desire to purchase DBA coverage may negotiate rates at the discretion of the insurance carrier."
- Further documentation that the purchase of DBA coverage is an allowable expense under cooperative agreements is provided in the recently issued "Ebola Guidance for USAID Implementing Partners" (http://pdf.usaid.gov/pdf_docs/pbaaa791.pdf) from the USAID Office of Acquisition & Assistance. This guidance, issued on November 21, 2014, states that, "Notwithstanding, USAID officials encourage DBA insurance coverage for recipients. Officials from Allied said they offer cooperative agreement and grant recipients the same rates that USAID's contractors and subcontractors pay for premiums."
- ADS Chapter 322.3.1 (effective 12/14/2006) (<http://www.usaid.gov/sites/default/files/documents/1868/322.pdf>), "Procurement of Insurance" states, "Except for Personal Service Contracts (PSCs) and contracts exclusively for the furnishing of materials or supplies, USAID-direct contracts and subcontracts involving performance overseas must provide for worker's compensation insurance as required by the Defense Base Act (DBA). DBA insurance requirements are mandatory for U.S. citizens, permanent residents, and any persons who are residing in the U.S., regardless of nationality, at the time they are hired or assigned to work overseas under a USAID contract. Concerning the applicability of the DBA to third country nationals (TCNs) and cooperating country nationals,

individuals from certain countries are exempt because USAID has obtained a blanket waiver from the U.S. Department of Labor. USAID must treat individuals from non-exempt countries as U.S. citizens for purposes of DBA insurance coverage, unless USAID obtains a waiver from the Department of Labor. M/OAA/E is responsible for obtaining additional waivers of DBA requirements from the Department of Labor for third country nationals and cooperating country nationals, when necessary. Contractors must ensure that individuals for whom the DBA requirements are waived are covered by at least locally- or internationally-mandated levels of workers' compensation and war-hazard insurance. Procedures for DBA insurance and the current DBA waiver list are contained in ADS 302." Afghanistan is not included on the waiver list.

- DBA coverage was itemized in the approved project budget and specifically addressed in the budget justification; hence, USAID had the opportunity to question and/or challenge the allowability or appropriateness during budget negotiations. Agreement Officer [REDACTED] in his initial response (dated January 20, 2011, Attachment 3) to the UMass proposal noted DBA costs at 2.5% seemed high and suggested a reduction to 2%; there was no question regarding DBA allowability or appropriateness from USAID.
- No written guidance exists from USAID or other US government entity stating that recipients of cooperative agreements must obtain prior Agreement Officer's approval for the procurement of DBA coverage for its employees, or stating that recipients are prohibited from procurement of DBA. In fact, as demonstrated in the three examples listed above, the USAID Office of Acquisition & Assistance encourages DBA insurance coverage for recipients, and has repeatedly informed recipients that they may also procure the coverage from the USAID authorized DBA provider, Allied/Aon.
- The health, welfare and safety of its employees – and thus, the provision of overseas workers' compensation and war-hazard insurance – was the most significant concern and obligation of the University of Massachusetts Amherst in agreeing to assume the lead on the Afghan Higher Education Project (HEP). As a responsible USAID implementing partner, the University asserts that it was critical and ethical to provide adequate risk protection for its overseas employees, particularly those working in a conflict zone like Afghanistan. In an effort to obtain the best value for the US government, the University requested that Aon honor the negotiated rates for DBA coverage to USAID contractors, rather than trying to negotiate with a different insurer. Use of the US government rates assured UMass Amherst of the competitiveness of the costs.

Finally, the University disagrees with Crowe Horwath's assessment of the questionable appropriateness of DBA insurance, based upon its review of limited DBA case law available. Crowe Horwath cited *University of Rochester v. Hartman* in its assessment that DBA insurance may "not be enforceable or applicable to the authorized work." In its review of the cited case, the University noted many significant differences between the fact pattern in *Hartman* and that of HEP. These differences are summarized below:

Hartman Case	Afghan Higher Education Project
Grant funded; best-efforts performance basis; exploratory in nature; undefined outcomes	Agreement funded for specific purpose with contractually obligated performance requirements, timelines, work plans, schedules, reporting, and milestones; contractually defined outcomes and deliverables
Unsolicited proposal	Solicited proposal – UMass Amherst was specifically requested to bid for lead after AED was removed from the lead by USAID
No substantial involvement of US government	Significant and substantial involvement of USAID
No history of DBA coverage for grant recipients	Precedence for DBA insurance provided for contractors and assistance recipients; USAID guidance (previously cited) encourages assistance recipients to provide DBA for its personnel
No nexus to national defense or war activities	Project implementation in post-war conflict zone still occupied by US military forces
No US government requirement for risk management planning or security	USAID required a risk management plan and security program in place throughout the project and as a condition of award
Claimant was US based employee of Rochester on travel status in Antarctica; campus based workman's compensation coverage applied to Claimant	Covered individuals were field-based personnel resident in Afghanistan who were ineligible for campus-based workmans' compensation programs through the Commonwealth of Massachusetts

For all the reasons offered above, the University of Massachusetts Amherst respectfully disagrees with Crowe Horwath's assertions regarding both allowability and appropriateness of DBA insurance under the awarded cooperative agreement.

With regards to costs associated with DBA coverage for the period beyond the end of the performance period (February 23, 2011 through February 28, 2014), the University respectfully disagrees with Crowe Horwath's assertion that the US government may have paid for a policy applicable to another contract under the HEP agreement. DBA policies are issued by the provider on an annual basis – in this case, from July 2013 through June 2014; the original estimated cost was \$16,163. At approximately six months into the coverage period, a policy-mandated review was undertaken to recalculate and adjust policy costs based on actual activity and duration; at that time, the annual coverage was estimated at \$31,188 in total. The amount of \$16,163 was paid in 2013; final invoicing for the recalculated policy costs was received from the insurer around May 2014. The attached documentation (Attachment 4) verifies that the cost of DBA coverage through February 28, 2014 was funded on the HEP cooperative agreement. The balance of coverage was funded under the separate award assuring that only the coverage allocable to the HEP cooperative agreement was paid by the HEP award.

▪ **FINDING 2015-05: Procurement: Cost-Price Analyses and Sole Source Procurements**

The University disagrees in part with the findings of Crowe Horwath in 2015-05. UMass Amherst concedes that its documentation of cost-price analyses accompanying the sole source justifications in the three cases cited could have been more clearly recorded in the Procurement Department's files. However, the University disagrees with the conclusion that no cost-price analyses were undertaken and further believes that the in-country circumstances, particularly in the case of the Ronco security contract, must be factored into any evaluation of the steps and procedures employed by the project to procure in-country services.

Award 306-A-00-11-00515-00 was issued to UMass Amherst pursuant to the Foreign Assistance Act of 1961 and in accordance with ADS 303.5.11(a), Substantial Involvement by USAID (<http://www.usaid.gov/sites/default/files/documents/1868/303.pdf>). The University assumed the role of lead recipient when the original lead, the Academy for Educational Development (AED), was suspended by USAID. UMass was asked to respond urgently to USAID's solicitation for the lead recipient role for HEP, and its proposal was deemed acceptable by USAID. The transition from AED to UMass was undertaken urgently so as to prevent a dismantling of the project and loss of program continuity and efficacy. Throughout this process, the safety and security of HEP personnel and physical assets were of paramount concern to both UMass Amherst and USAID. In addition, Afghan Presidential Decree No. 62 called into question the availability and legal status of security services in Afghanistan. UMass Amherst was required by USAID to provide a plan addressing security, even in the face of serious limitations on the number of approved private security companies (PSCs) allowed to do business in Afghanistan. Further, USAID specifically approved the contract with Ronco (letter of May 30, 2011, Attachment 5), one of very few licensed PSCs operating in country. Notably, the award agreement included the following:

Please note: It is imperative that IPs understand that the budget and activities submitted under this award must consider the impact of Afghanistan's Presidential decree No. 62 to disband private security contractors (PSCs). No new PSC contracts are approved. As part of your approval request, you must provide an explanation of how the activity and/or request will not be (or will be minimally) impacted should the decree be put into full effect. No activity that is considered to be significantly impacted by the decree shall be initiated without consultation and approval from the COTR/AOTR and the Contracting/Agreements Officer.

Ronco was the security contractor in place under AED, and it continued to provide security services after AED had departed, but before the new lead recipient had been formally installed. For a period of some 6-8 weeks, Ronco personnel guarded the HEP offices and residence, at the urging and direction of USAID, without being under contract to either AED or UMass. Ultimately, the University's determination that a sole source procurement was appropriate was based on these and the following additional factors:

- UMass was quickly reassembling staff for a very short expected performance period and on extremely short notice; the University needed immediate protection of HEP staff and continuing protection of USAID assets.
- UMass inherited Ronco from AED along with an obligation for the protection of USAID assets during the transition period. Arrangements to have Ronco continue during the transition period were made with USAID's knowledge and involvement.

- UMass understood the process by which AED appointed Ronco was compliant with USAID requirements; the University's need to continue the Ronco arrangement for security was discussed with and guided by USAID.
- UMass believed that Ronco represented the most qualified and best option in terms of a long record with HEP, favorable feedback from staff, and very few security incidents. At the request of the USAID Agreement Officer (██████████), UMass outlined its analysis of the Ronco contract costs in email dated May 16, 2011 (Attachment 6).
- UMass regarded this as a legitimate extension of the Ronco contract with the project in view of the unusual operating circumstances (i.e., AED's removal as lead, Presidential decree regarding new PSC contracts, urgency to protect USAID investments already made in HEP, etc.). Further, in consideration of the substantial uncertainty related to the Afghan Presidential Decree No. 62 and its impact on new PSC contracts, it was the University's belief that it would potentially not be able to replace Ronco with another PSC. The University's willingness to assume the lead for HEP was predicated on the condition that its personnel would be secure. Taking the lead without security in place was not an option for UMass.

With regards to the educational consulting contract for Rubyna Ajanee, the University did evaluate the qualifications of other potential consultants (see tabular list Attachment 7) and it did review two potential qualified respondents' 1420 forms to determine daily rate history. Based on qualifications and experience – and with a history of USAID daily rates paid to Ms. Ajanee as reflected in her 1420 – the University documented a sole source award for the consulting services. The University judged the daily rate to be reasonable based on the fact that it had been paid previously under USAID projects, it was consistent with UMass' substantial experience with other USAID projects, and it was in line with the other possible candidate's daily rate.

With regards to Steve Kroll & Associates compliance review services, 11 possible providers were evaluated for qualifications, experience, capability and cost (Attachment 8). A variety of expertise was needed in order for the consultant to address the University's needs, and only a limited number of respondents provided such expertise, making price comparison more challenging. The University selected the most qualified provider who offered the best value for HEP based on cost and other factors. Steve Kroll & Associates had specific USAID training experience through its affiliation with InsideNGO, an organization that does training for USAID contractors and implementing partners (see <https://www.insidengo.org/>). The University compared Kroll's cost estimate to InsideNGO trainings as part of its cost analysis. The University determined Kroll's proposed cost fell within the reasonable range for experts offering the combination of skills, availability, experience and capability to conduct work in-country that was deemed necessary.

UMass is committed to improving its documentation of all purchases, including sole source requests, and has recently implemented a significant change to our procurement process. In July 2013, UMass implemented BuyWays, a new eProcurement system that utilizes the SciQuest platform. This new system replaced the Procurement functions in the old PeopleSoft financials system.

BuyWays has an electronic document process that flows through a requisition approval workflow process beginning in the user's department. All backup documentation must be included with the purchase requisition or the requisition will be rejected and returned to the user. The entire process is electronic and is fully documented on the requisition. This allows the Procurement staff a complete

review of all documents as well as the ability to quickly assess if any documents are missing. If documents are missing, the entire requisition is returned to the user and documented in the electronic file.

▪ **FINDING 2015-06: Unsupported Audit Transactions**

Response: The University respectfully disagrees to the finding that \$4,437 worth of transactions should be questioned. UMass provided supporting documentation identifying the \$4,437 as **bank fees**. Part of the support was emailed to the auditors on 2/5/15. The remainder was uploaded to the auditors' CiRT portal on 2/6/15. These costs were erroneously referenced as "*Fin Audit Serv*" in the journal entry line descriptions. The expenses were processed in the University's Financial Accounting System with account code 757100, "Financial Services." These project expenses were included in the Other Direct Costs category.

Appendix B: Auditor's Rebuttal

Crowe Horwath LLP, in consideration of the views presented by the management of the University of Massachusetts ("UMass" or "the auditee"), presents the following rebuttal 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 audit report. In those instances where management's response did not provide new information and support to modify the facts and circumstances that resulted in the initial finding, we have not provided a response. The absence of a rebuttal indicates that Crowe does not deem it necessary to correct or clarify any response of the auditee.

Finding 2015-01

Crowe has reviewed management's response. Per our review of the response, no information was provided that indicates a deviation, waiver, or other written exception was provided by the Government that permitted UMass to retain the \$110,449 in excess Federal cash on-hand as of May 28, 2014 – the end of the 90 day closeout period.

In addition, UMass asserted the provisions of 22 CFR Part 226.72(b). However, the regulation cited by the auditee pertains to continuing responsibilities – including, specifically, matters referenced within the property management regulations that continue after closeout (e.g., inventory and disposition matters). UMass excluded the element of the regulation immediately preceding the aforementioned provision, which includes the scope of the regulation as pertaining to adjustments. 22 CFR Part 226.72(a) states:

- (a) The closeout of an award does not affect any of the following.
 - 1) The right of USAID to disallow costs and recover funds on the basis of a later audit or other review.
 - 2) The obligation of the recipient to return any funds due as a result of later refunds, corrections, or other transactions.
 - 3) Audit requirements in §§226.26.
 - 4) Property management requirements in §§226.31 through 226.37.
 - 5) Records retention as required in §§226.53.

The referenced regulation does not expressly permit increases in costs incurred, but rather limits adjustments to matters that may result in the return of funds to the Government whether due to audits, refunds, or other matters. Accordingly, the finding remains unchanged.

Finding 2015-02

As presented in UMass's notes to the Special Purpose Financial Statement and as denoted on UMass's federal financial reports submitted to USAID, UMass operated on the cash basis of accounting. Under the cash basis, in accordance with the provisions of Title 22, Part 226.2, expenditures or outlays on the cash basis as "the sum of cash disbursements for direct charges for goods and services, the amount of indirect expense charged, the value of third party in-kind contributions applied and the amount of cash advances and payments made to subrecipients." Upon review of UMass's management response, we did not identify any information that indicates that the expenditure recognition protocol applicable to the cash basis of accounting was modified or a deviation from the requirements applicable to the cash basis was granted. Accordingly, the finding has not been modified.

We noted UMass's reference to award closeout procedures within the management response. Whereas the finding is not predicated on the award closeout process and the closeout procedure regulation is not asserted as a criterion for the finding, we have not rebutted management's comments with respect to that matter.

Finding 2015-03

As presented in UMass's notes to the Special Purpose Financial Statement and as denoted on UMass's federal financial reports submitted to USAID, UMass operated on the cash basis of accounting. Under the

cash basis of accounting, revenue is recognized and recorded at the time cash is received. As UMass noted within the management response, there were draws made after the conclusion of the period of performance, which also serves as the cutoff date for the Special Purpose Financial Statement. Due to the funds having been received after the cutoff date for the Statement and considering the asserted basis of accounting having been the cash basis, the finding has not been modified.

UMass also noted that the cause of the revisions to the Statement was a communication that the auditors were unable to match the figures presented on the SPFS provided for audit (referred to as the "DRAFT SPFS" within the management response) and that additional information was provided on January 31, 2015. However, we noted that the misstatements referenced in the finding were the result of UMass's be unable to re-produce the amounts on the Statement using the chart of accounts crosswalk provided by management. This resulted in the provision by management of the "corrected" SPFS on January 16, 2015, as provided by the Assistant Controller. When management was unable to re-produce and tie the amounts presented on the correct SPFS to certain object accounts and amounts reported by UMass, management provided the "revised SPFS" on January 31, 2015. Whereas the series of adjustments required to arrive at the final SPFS were material and the errors were not detected and corrected by management in a timely manner, the conclusions referenced in the finding are accurate and have not been revised.

Whereas the remaining elements of the management response did not provide new information not previously reviewed and considered during fieldwork and during development of the finding, no modifications have been made to the finding with respect to the misclassifications or budget overruns.

Finding 2015-04

Crowe has reviewed management's response and the documents referenced. Upon review, we note that the guidance documents in effect during the period of UMass's cooperative agreement do not state that Defense Base Act (DBA) insurance is an allowable expense. In addition, the guidance documents do not state that the DBA rates and coverage are to apply to personnel employed by the recipient of a cooperative agreement. As noted within the finding, a grant or cooperative agreement recipient may purchase DBA insurance to cover its contractors and subcontractors, as per Section 1651(a)(5) of the DBA. The budget documentation and other support provided by UMass has not adequately supported the allowability of DBA insurance for the recipient's personnel.

We have also reviewed UMass's summary of the *University of Rochester v. Hartman* legal case asserted by the U.S. Department of Labor in its explanation for considering grants and cooperative agreements to not be covered under DBA. While UMass identified various differences in the circumstances of the case, UMass did not produce information or evidence that invalidates the U.S. Court of Appeals for the Second Circuit's overall conclusion that grants and cooperative agreements are not covered by DBA or that otherwise indicates that the U.S. Department of Labor's assertion that work performed under grants and cooperative agreement is not DBA-covered is incorrect.

With respect to the *effect* noting that the Government may have funded costs for a separate contract, UMass indicated that the premium was paid from two separate contracts versus the full amount having been paid by the Higher Education Project (HEP). UMass's email dated January 20, 2015, notes that, "[the business analyst] did an Audit from July 1, 2013 – June 30, 2014 and then split the HEP payroll and the USWDP and made 2 payments, one from each contract, accordingly." However, the full value of the policy was reflected within the HEP accounting records, which support charges to the HEP.

In consideration of these matters, the finding remains unchanged.

Finding 2015-05

We have reviewed management's responses and the documentation provided. Regarding the contract for RONCO to provide security services, no new documentation was provided to support the reasonableness of the cost. In addition, we re-reviewed the correspondence with USAID and did not identify any instances in which USAID approved the reasonableness of the cost; rather, USAID provided its approval to proceed with subcontracting with RONCO. Therefore, we have not modified the finding with respect to this matter.

Regarding the new documentation provided by UMass for vendor Rubyna Ajanee, we noted that the additional documentation provided included certain salary and daily rate histories for Ms. Ajanee and one other individual. However, the information provided did not appear to be relevant to the Higher Education Project or education-related programming; rather, the compensation and daily rate data pertained to the vendor's prior roles as a product manager, investment manager, and derivative risk consultant. The information provided for the second individual included work on projects for matters such as energy management. These documents, therefore, do not present an appropriate basis of comparison and the finding is unmodified.

With regard to the Steve Kroll and Associates procurement, no new documentation demonstrating costs for the same or similar services for the selected vendor and other vendors was provided. Therefore, the finding is not modified with respect to this purchase.

Finding 2015-06

Crowe has reviewed the documentation provided subsequent to fieldwork. The evidence provided, including copies of bank statements showing the fees assessed and charged to UMass, is sufficient to clear the finding as presented within the draft report. The finding, inclusive of the associated questioned costs, has been removed from the final report and, therefore, does not appear within this document.

Appendix C: Costs Incurred After the Period of Performance

The following table presents the costs that were incurred after the period of performance. These transactions are questioned within Finding 2015-02.

Account	Description	Name	Payment Date	Trans Date	Transaction Amount
726210	Travel - Out of State	[REDACTED]	3/14/2014	1/31/2014	\$5.32
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/12/2014	\$9.53
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/12/2014	\$71.50
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/12/2014	\$20.00
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/11/2014	\$16.33
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/11/2014	\$143.00
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/11/2014	\$35.75
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/10/2014	\$166.70
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/30/2014	\$35.75
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/9/2014	\$17.00
726220	Travel - Foreign	[REDACTED]	3/14/2014	1/6/2014	\$700.00
726250	Mileage - Travel -Out of State	[REDACTED]	3/14/2014	1/10/2014	\$27.44
726250	Mileage - Travel -Out of State	[REDACTED]	3/14/2014	1/31/2014	\$27.44
727200	Other Job Related Expense	[REDACTED]	3/14/2014	2/15/2014	\$500.83
727200	Other Job Related Expense	[REDACTED]	3/14/2014	1/11/2014	\$11.17
727200	Other Job Related Expense	[REDACTED]	5/23/2014	1/16/2014	\$650.00
734140	Insurance	[REDACTED]	3/4/2014	2/3/2014	\$1,364.91
734140	Insurance	[REDACTED] SERVICES WE	6/30/2014	6/30/2014	\$15,025.00
757190	Mgmt Consultants	[REDACTED]	4/1/2014	3/3/2014	\$1,400.00
757220	Planners	[REDACTED]	3/13/2014	2/11/2014	\$4,875.00
757280	Writers	[REDACTED]	3/4/2014	1/18/2014	\$250.00
761290	Messenger Services	[REDACTED]	3/4/2014	2/10/2014	\$27.47
761290	Messenger Services	[REDACTED]	3/6/2014	2/17/2014	\$27.97
761290	Messenger Services	[REDACTED]	3/13/2014	3/3/2014	\$64.57
761290	Messenger Services	[REDACTED]	7/15/2014	6/11/2014	\$690.00
761460	Temporary Help Services	THE INC [REDACTED]	3/4/2014	2/2/2014	\$1,095.08
761460	Temporary Help Services	THE INC [REDACTED]	3/11/2014	2/9/2014	\$857.93
761460	Temporary Help Services	THE INC [REDACTED]	3/18/2014	2/16/2014	\$906.75
761460	Temporary Help Services	THE INC [REDACTED]	3/25/2014	2/23/2013	\$983.47
761460	Temporary Help Services	THE INC [REDACTED]	4/1/2014	3/2/2014	\$1,109.02
TOTALS:					\$31,114.93

SIGAR's Mission

The mission of the Special Inspector General for Afghanistan Reconstruction (SIGAR) is to enhance oversight of programs for the reconstruction of Afghanistan by conducting independent and objective audits, inspections, and investigations on the use of taxpayer dollars and related funds. SIGAR works to provide accurate and balanced information, evaluations, analysis, and recommendations to help the U.S. Congress, U.S. agencies, and other decision-makers to make informed oversight, policy, and funding decisions to:

- improve effectiveness of the overall reconstruction strategy and its component programs;
- improve management and accountability over funds administered by U.S. and Afghan agencies and their contractors;
- improve contracting and contract management processes;
- prevent fraud, waste, and abuse; and
- advance U.S. interests in reconstructing Afghanistan.

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- Web: www.sigar.mil/fraud
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