

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 16-31 Financial Audit

USAID's Health Care Improvement Project: Audit of Costs Incurred by the University Research Company, LLC

**In accordance with legal requirements, SIGAR has redacted certain
information deemed proprietary or otherwise sensitive from this report.**



APRIL
2016

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On September 30, 2009, the U.S. Agency for International Development (USAID) awarded a 4-year, \$89.5 million task order to the University Research Company, LLC (URC) to implement the Health Care Improvement (HCI) project in multiple countries, including Afghanistan. URC is a global company that works to improve the quality of health care, social services, and health education worldwide. The HCI project was intended to improve the quality of maternal and newborn care and basic package of health services, and provide strategic support to the Afghan Ministry of Public Health to improve healthcare capacity and infrastructure. After 20 modifications, the total obligated amount of the task order was increased to \$90.7 million, and the period of performance was extended to September 29, 2014. Of the task order's \$90.7 million, \$13.9 million was for activities in Afghanistan.

SIGAR's financial audit, performed by Mayer Hoffman McCann P.C. (MHM) reviewed \$13,121,542 in expenditures charged to the task order from September 30, 2009, through September 29, 2014. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in URC's internal controls related to the task order; (2) identify and report on instances of material noncompliance with the terms of the task order and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether URC has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of URC's Special Purpose Financial Statement. See MHM's report for the precise audit objectives.

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

April 2016

USAID's Health Care Improvement Project: Audit of Costs Incurred by the University Research Company, LLC

SIGAR 16-31-FA

WHAT THE AUDIT FOUND

MHM identified three deficiencies in URC's internal controls, two of which were considered significant deficiencies, and three instances of noncompliance with the terms and conditions of the task order. Specifically, MHM found that URC was unable to provide adequate support for competitive procurement processes related to consultants, travel, vendor payments, and other direct costs. MHM also found that URC did not adhere to its internal policies and task order terms related to payroll records. Finally, MHM determined that URC could not provide sufficient support that it reviewed the Excluded Parties List System before contracting with vendors to verify the vendors were not suspended, debarred, or otherwise excluded from receiving federal funds.

As a result of the internal control deficiencies and instances of noncompliance, MHM identified \$208,435 in total questioned costs, consisting of \$162 in ineligible costs—costs prohibited by the task order, applicable laws, or regulations—and \$208,273 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Labor	\$0	\$8,056	\$8,056
Other Direct Costs	\$134	\$158,673	\$158,673
Indirect Costs	■	■	■
Base Fee	■	■	■
Totals	\$162	\$208,273	\$208,435

MHM did not identify any prior audits, reviews, or evaluations related to URC's work to support the HCI project in Afghanistan.

MHM issued an unmodified opinion on URC's Special Purpose Financial Statement, noting that it presents fairly, in all material respects, revenues received, and costs incurred in Afghanistan for the period audited.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$208,435 in questioned costs identified in the report.**
2. **Advise URC to address the report's three internal control findings.**
3. **Advise URC to address the report's three noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

April 20, 2016

The Honorable Gayle E. Smith
Administrator
U.S. Agency for International Development

Mr. Herbert Smith
USAID Mission Director for Afghanistan

We contracted with Mayer Hoffman McCann P.C. (MHM) to audit the costs incurred by the University Research Company, LLC (URC) under a U.S. Agency for International Development (USAID) task order to support the Health Care Improvement (HCI) project in Afghanistan.¹ MHM's audit covered \$13,121,542 in expenditures charged to the task order from September 30, 2009, through September 29, 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 responsible contracting officer at USAID:

1. **Determine the allowability of and recover, as appropriate, \$208,435 in questioned costs identified in the report.**
2. **Advise URC to address the report's three internal control findings.**
3. **Advise URC to address the report's three noncompliance findings.**

The results of MHM's audit are detailed in the attached report. We reviewed MHM'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 URC's Special Purpose Financial Statement. We also express no opinion on the effectiveness of URC's internal control or compliance with the task order, laws, and regulations. MHM is responsible for the attached auditor's report and the conclusions expressed in the report. However, our review disclosed no instances where MHM 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-070)

¹ USAID awarded contract no. GHN-I-00-07-00003-00, task order 3 to URC to support the HCI project in Afghanistan, which was intended to improve the quality of maternal and newborn care and basic package of health services, and provide strategic support to the Afghan Ministry of Public Health to improve healthcare capacity and infrastructure.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred Under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

For the Period September 30, 2009 through September 29, 2014

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

For the Period September 30, 2009 through September 29, 2014

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

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February 23, 2016

Enclosed is the final report on the financial audit of costs incurred under Contract No. GHN-I-00-07-00003-00 ("Contract"), Task Order No. 3 ("Task Order") awarded by the United States Agency for International Development (USAID) to University Research Company, LLC ("URC") for implementation of the Health Care Improvement ("HCI") in Afghanistan. The audit covers the period September 30, 2009 through September 29, 2014.

The following items are included in the report:

- Summary
- Independent Auditor's Report on Special Purpose Financial Statement
- Special Purpose Financial Statement
- Notes to Special Purpose Financial Statement
- Notes to Questioned Costs Presented on Special Purpose Financial Statement
- Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with *Government Auditing Standards*
- Detailed Audit Findings
- URC's Response to Detailed Audit Findings
- Auditor's Rebuttal to URC's Response to Findings

Sincerely,

Mayer Hoffman McCann P.C.

Marcus D. Davis, CPA
Shareholder

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

For the Period September 30, 2009 through September 29, 2014

Background

On September 30, 2009, the United States Agency for International Development ("USAID") initially entered into Contract No. GHN-I-00-07-00003-00 ("Contract"), Task Order No. 3 ("Task Order") with University Research Company, LLC ("URC") for implementation of the Health Care Improvement ("HCI") project in support of improvements to the quality of healthcare in USAID-assisted countries. The Task Order was in the amount of \$89,579,438 and was on a cost plus fixed fee basis (cost was \$84,112,148 and fixed fee was \$5,467,290). The period of performance was to be 48 months from the date of award (September 30, 2009 through September 29, 2013). The HCI Task Order encompasses multiple regions in the Middle East, as well as countries in Asia and Africa. The Task Order was modified twenty times for reasons such as including incremental funding and adding or modifying contract clauses. Some of the modifications that have a significant impact on the original Task Order are described below:

<u>Modification No.</u>	<u>Effective Date</u>	<u>Significance</u>
1	02/18/10	Modified the Contract Number to GHN-I-03-07-00003-00
10	05/07/12	Increased the total award to \$91,779,438
17	06/14/13	Increased the total obligated amount to \$90,732,524
19	09/26/13	Extended the period of performance to 09/29/14

Four of the modifications included funding for activities in Afghanistan, totaling \$13,950,000. These modifications are as follows. It is only these funds which are in support of Afghanistan reconstruction activities that are the subject of this audit.

<u>Modification No.</u>	<u>Effective Date</u>	<u>Amount Awarded</u>	<u>Year(s) funded</u>
1	02/18/10	\$ 4,250,000	2009/2010
2	09/30/10	5,000,000	2010/2011
10	05/07/12	3,700,000	2011/2012
15	03/04/13	<u>1,000,000</u>	2011/2012
Total		<u>\$13,950,000</u>	

According to the Initial Work Plan to Field Support under the Task Order, in 2009, URC started the HCI demonstration phase of the project in the three provinces of Balkh, Kabul and Kunduz, with the aim to improve quality of maternal and newborn care throughout the continuum of care (Hospital, Basic Package of Health Services (BPHS) Facilities and Community). In late 2009, URC was given the responsibility to expend HCI at the national level to provide strategic support to the Ministry of Public Health (MoPH) to build capacity and infrastructure for improvements. HCI has been using a collaborative approach where health facilities come together, work on common aims, test changes in a small scale and changes that yield improvement are gradually scaled up to other health facilities within the three provinces and then to other provinces.

UNIVERSITY RESEARCH COMPANY, LLC

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In mid-2010, URC scaled up HCI activities to the provinces of Herat, Bamyan and Parwan in consultation with USAID. In the same year, URC through HCI, established an Improving Quality in Healthcare (IQHC) Unit of the MoPH and developed a strategy for improving quality in healthcare. Medical record management, post-partum family planning, and in 2011 started helping babies breathe activities. By 2012, HCI was working with approximately 11 hospitals, 90 BPHS health facilities and numerous Community Health Workers (CHWs) in several provinces using a collaborative approach. In 2013, the HCI project's main focus was to support the IQHC Unit of the MoPH to develop, finalize and implement the harmonized approaches, which is a mix of all approaches implemented since 2003 in Afghanistan. The summary of HCI focused on the following two major activities: (1) support the MoPH and partners in building their capacity on improving quality of healthcare; and (2) handover of HCI provincial collaborative activities to the central and provincial authorities and implementing partners.

URC is a single member limited liability company (LLC) and is not a taxing entity. The LLC derives substantially all of its revenue from contracts with the U.S. Government and its agencies, specifically USAID and the U.S. Department of Health and Human Services.

Work Performed

Mayer Hoffman McCann P.C. ("MHM") was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") to conduct a financial audit of URC's HCI Special Purpose Financial Statement ("SPFS") for costs incurred in Afghanistan for the period September 30, 2009 through September 29, 2014.

Objectives, Scope and Methodology

Objectives Defined by SIGAR

The objectives of the audit include the following:

- *The Special Purpose Financial Statement (SPFS)* – Express an opinion on whether URC's SPFS for the award presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the award and generally accepted accounting principles or other comprehensive basis of accounting.
- *Internal Controls* – Evaluate and obtain a sufficient understanding of URC's internal control related to the award; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

For the Period September 30, 2009 through September 29, 2014

- *Compliance* – Perform tests to determine whether URC complied, in all material respects, with the award requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the award and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether URC has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

Scope

The scope of this audit included all costs incurred during the period September 30, 2009 through September 29, 2014 under the Task Order. Our testing of overhead was limited to determining that the overhead was calculated using the correct final negotiated overhead rate or provisional overhead rate, as applicable for the given fiscal year, as approved by USAID.

Methodology

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

Entrance Conference

An entrance conference was held via conference call on August 20, 2015. Participants included representatives of MHM, URC, SIGAR and USAID.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of URC;
- Reviewed the Task Order and all modifications;
- Reviewed regulations specific to USAID that are applicable to the Task Order;
- Performed a financial reconciliation; and

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
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Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

For the Period September 30, 2009 through September 29, 2014

- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports, and based upon the risk assessment and materiality included as part of the approved Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high or medium to low risk for inclusion in our test of transactions. None of the populations were homogeneous in nature, thus statistical sampling was not used. All samples were selected on a judgmental basis. Our sampling methodology for judgmental samples was as follows:
 - For accounts that appeared to contain unallowable and restricted items according to the terms of the Agreement, Federal Acquisition Regulation (FAR) Part 31 and any other applicable regulations, we tested 100% of the transactions.
 - For related party transactions, we tested 100% of the transactions.
 - For high risk cost categories, we sampled transactions greater than \$13,100 not to exceed 50% of the total amount expended for each cost category
 - For medium risk cost categories, we sampled transactions greater than \$26,200 not to exceed 20% of the total amount expended for each cost category.
 - For low risk cost categories, we sampled transactions that are greater than \$26,200 not to exceed 10% of the total amount expended for each cost category, not to exceed 50 transactions in total for all accounts comprising low risk cost categories.

If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Project Director as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

Internal Control Related to the SPFS

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

Compliance with Agreement Requirements and Applicable Laws and Regulations

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

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
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For the Period September 30, 2009 through September 29, 2014

Corrective Action on Prior Findings and Recommendations

We requested all reports from previous engagements in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Task Order and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Task Order and reasonable.

Exit Conference

An exit conference was held on November 19, 2015 via conference call. Participants included MHM, URC, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

Summary of Results

Our audit of the costs incurred by URC under the Task Order with USAID identified the following matters. Findings are classified as either internal control or compliance or combination of internal control and compliance

Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We did identify \$208,435 of questioned costs under the Task Order. A summary of findings and questioned costs is as follows:

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

For the Period September 30, 2009 through September 29, 2014

Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Matter	Questioned Costs	Total Cumulative Questioned Cost
2015-1	Internal control – significant deficiency	Missing or insufficient source documentation to support expenses and non-program related expense claimed	\$24,324	\$24,324
2015-2	Internal control – significant deficiency Compliance	Lack of adherence to URC's payroll policy and Task Order requirements	\$15,588	\$39,912
2015-3	Compliance	Lack of evidence of competitive bidding	\$168,523	\$208,435
2015-4	Compliance	Need to review the excluded parties list	None	\$208,435
2015-5	Internal control – deficiency	Lack of adherence to policies and procedures	None	\$208,435

Internal Control Findings

Our audit discovered three internal control findings, consisting of two significant deficiencies and one deficiency. See Independent Auditor's Report on Internal Control on page 18. The complete management responses from URC to each of the internal control findings can be found in Appendix A to this report.

Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we performed tests of its compliance with certain provisions of the Task Order and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed three instances of noncompliance related to this audit. See Independent Auditor's Report on Compliance on page 20. The complete management responses from URC to each of the compliance findings can be found in Appendix A to this report.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
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For the Period September 30, 2009 through September 29, 2014

Review of Prior Findings and Recommendations

We requested copies of prior audits, reviews and evaluations pertinent to URC's activities under the Health Care Improvement (HCI) project. Per communication with URC and USAID, there were no prior audit reports issued for this project.

Summary of URC's Responses to Findings

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

- Finding Number 2015-1: URC disagrees with the finding, stating that it only acknowledges \$860 out the total questioned costs of \$24,324. URC believes the majority of the questioned costs were properly and sufficiently supported.
- Finding Number 2015-2: URC disagrees with the finding, stating that although they acknowledge there were two conflicting payroll policies, there was adherence to either one. In addition, URC indicates that other evidence was provided to support the illegible timesheets. Thus the costs should not be questioned. URC does agree that \$174 out of the \$15,588 questioned costs is properly questioned.
- Finding Number 2015-3: URC disagrees with the finding, stating that although it acknowledges the lack of robust documentation to support the competitive bidding process, there was evidence supporting that the services were received and that the costs were competitive.
- Finding Number 2015-4: URC agrees with the finding.
- Finding Number 2015-5: URC disagrees with the portion of this finding related to incomplete petty cash transaction forms not being signed, stating that since the key personnel did sign the forms, not all of the signatures required on the form needed to be obtained.



Mayer Hoffman McCann P.C.

An Independent CPA Firm

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INDEPENDENT AUDITOR'S REPORT ON SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
University Research Company, LLC
Bethesda, Maryland

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement of University Research Company, LLC (URC) under Contract No. GHN-I-00-07-00003-00 (Contract), Task Order No. 3 (for costs incurred in Afghanistan only) with the United States Agency for International Development (USAID) to support the Health Care Improvement project for the period September 30, 2009 through September 29, 2014, and the related notes to the Special Purpose Financial Statement.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Special Purpose Financial Statement in accordance with the methods of preparation described in Note 2; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements (including the Special Purpose Financial Statement) that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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



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accounting estimates made by management, as well as evaluating the overall presentation of the Special Purpose Financial Statement.

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

Opinion

In our opinion, the Special Purpose Financial Statement referred to above presents fairly, in all material respects, the respective revenue received and costs incurred by URC under Contract No. GHN-I-00-07-00003-00, Task Order No. 3 (for costs incurred in Afghanistan only) for the period September 30, 2009 through September 29, 2014 in accordance with the basis of accounting described in Note 2.

Restriction on Use

This report is intended for the information of University Research Company, LLC, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 23, 2016 on our consideration of URC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering URC's internal control over financial reporting and compliance.



Irvine, California
February 23, 2016

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under

Contract No. GHN-I-00-07-00003-00

Task Order (No.3) to support the Health Care Improvement Project

For Cost Incurred in Afghanistan Only

Special Purpose Financial Statement

For the Period September 30, 2009 through September 29, 2014

	Budget	Actual	Questioned Costs			Notes
			Ineligible	Unsupported	Total	
Revenues:						
GHN-I-00-07-00003-00 (Task Order 3)	\$ 91,779,438	\$ 13,121,542	\$ -	\$ -	\$ -	(1)
Total revenues	91,779,438	13,121,542	-	-	-	(3)
Costs incurred:						(4)
Direct labor	31,747,433	4,178,045	-	8,056	8,056	(A)
Other direct costs	37,115,744	5,952,666	134	158,673	158,807	(5), (B)
Indirect cost						(6), (C)
Base fee						(7), (D)
Award fee		-	-	-	-	
Total costs incurred	91,779,438	13,121,542	162	208,273	208,435	
Outstanding fund balance	\$ -	\$ -	\$ (162)	\$ (208,273)	\$ (208,435)	

See Notes to Special Purpose Financial Statement
and Notes to Questioned Costs Presented on Special Purpose Financial Statement

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

Notes to Special Purpose Financial Statement¹

For the Period September 30, 2009 through September 29, 2014

(1) Background

On September 30, 2009, the United States Agency of International Development (“USAID”) awarded Task Order No. 3 (“Task Order”) under Indefinite Quantity Contract (IQC) No. GHN-I-00-07-00003-00 (the “Contract”) to University Research Company, LLC (“URC”) for the implementation of the Health Care Improvement (“HCI”) project to support improvements to the quality of healthcare in USAID-assisted countries.

The Task Order encompassed multiple regions in the Middle East and countries in Asia and Africa for a total of \$89,579,428 in estimated costs plus fixed fee for a period of performance of 48 months for the period September 30, 2009 through September 30, 2013.

On May 7, 2012, Task Order modification 10 increased the total estimated costs plus fixed fee to \$91,779,438. On September 26, 2013, Task Order modification 19 extended the period of performance through September 29, 2014.

Specific to Afghanistan, on February 11, 2013, URC submitted a request to USAID for final close out of the project office in Kabul, Afghanistan with a target date of September 30, 2013. In a letter dated September 28, 2013, USAID noted that field activities had been completed and granted URC an extension to of up to 60 days from September 30, 2013 to complete an orderly close out of the project office. Final close out of the project office in Afghanistan occurred in October 2013.

(2) Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes costs incurred for Afghanistan HCI initiatives under the Contract, for costs incurred in Afghanistan only, for the period September 30, 2009 through September 29, 2014. Because the SPFS presents only a selected portion of the operations of URC, it is not intended to and does not present the financial position, changes in financial position, or cash flows of URC. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America, and is specific to the aforementioned Task Order.

¹ The Notes to the Special Purpose Financial Statement are the responsibility of URC.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

Notes to Special Purpose Financial Statement

(Continued)

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

Basis of Accounting

Expenditures reported on the SPFS are required to be presented in accordance with accounting principles generally accepted in the United States of America and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Federal Acquisition Regulation Part 31 – *Contracts with Commercial Organizations*.

Currency

All amounts presented are shown in U.S. dollars, the reporting currency of URC. URC converts its expenses that were paid in Afghanis (local currency) into U.S. dollars (reporting currency) by applying the weighted average monthly rate based upon the bank rates used to transfer funds between U.S. dollars and Afghanis.

(3) **Revenue**

As of September 29, 2014, URC has reported \$13,121,542 in revenue. This revenue equals the estimated total expenditures and fees invoiced to USAID for the period September 30, 2009 through September 29, 2014 for direct, indirect, and base / awards fee costs incurred in Afghanistan only for the Healthcare Improvement (HCI) Project. Based on the nature of the global task order, contract revenues through project close estimated for Afghanistan were not distinct within the overall amounts invoiced and received from USAID for costs incurred on the global task order.

(4) **Costs incurred by Budget Category**

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved Task Order budget. The budget amount presented in the SPFS represent the total budgeted amounts for all regions and countries covered in the Contract Task Order. The actual amount presented in the SPFS represent only costs related to the HCI project in Afghanistan.

The incurred costs reported in the SPFS are fully burdened utilizing approved indirect rates as stated in the Negotiated Indirect Cost Rate Agreement (NICRA). Audits of URC's indirect rates for any period covered by the SPFS are coordinated with USAID. The results of final audits of the indirect rates may result in changes to the rates applied during the preparation of this SPFS.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
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Notes to Special Purpose Financial Statement

(Continued)

(5) Other Direct Costs

According to the approved budget of the HCI Project, other direct costs included subcategories of expenses as follow. The amounts incurred under the subcategories that comprise other direct costs are as follows:

	Actual Costs Incurred
Other direct costs subcategories:	
Consultants	\$ 455,575
Allowances	306,082
Travel and transportation	782,948
Subcontract	561,539
Other direct costs (ODCs)	<u>3,846,522</u>
Total other direct costs subcategories	<u>\$5,952,666</u>

(6) Indirect Cost

URC's most recent negotiated indirect cost rates were approved on December 22, 2015, and the indirect cost rates applicable to period September 30, 2009 through September 29, 2014 were as follows. URC did not have an approved final rate for this period. As such, URC continued to use the approved provisional rates during the period.

Type	<u>Effective Period</u>		<u>Fringe Benefits</u>			<u>Overhead</u>			Grant and Subcontract Handling (g)
	<u>From</u>	<u>Through</u>	<u>Full and Part- Time (a)</u>	<u>Statutory (b)</u>	<u>On- Site (c)</u>	<u>Client (d)</u>	<u>Int'l (e)</u>	<u>G&A (f)</u>	
Provisional	10/01/09	09/30/10	████	████	N/A	████	████	████	████
Provisional	10/01/10	09/30/11	████	████	N/A	████	████	████	████
Provisional	10/01/11	09/30/12	████	████	N/A	████	████	████	████
Provisional	10/01/12	09/30/13	████	████	N/A	████	████	████	████

The basis of allocation for the indirect costs is as follows:

- (a) Total labor dollars of full-time employees.
- (b) Total labor dollars of part-time employees.
- (c) Total on-site direct labor dollars including bid and proposal (B&P) labor dollars and applicable fringe benefits and allowances.
- (d) Total client/US-based direct labor dollars including B&P labor dollars and applicable fringe benefits and allowances.

UNIVERSITY RESEARCH COMPANY, LLC

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Notes to Special Purpose Financial Statement

(Continued)

(6) Indirect Cost (Continued)

- (e) Total international and Host Country National (HCN) direct labor dollars including B&P labor dollars and applicable fringe benefits and allowances.
- (f) Total costs excluding general and administrative (G&A) costs and subcontract costs greater than \$50,000 per subcontractor per year (not to exceed \$400,000 per year for any one contract), effective October 1, 2008 total grant and subcontract costs are excluded.
- (g) Total grant and subcontract costs.

* Effective October 1, 2012, client overhead was changed to US-based programs.

(7) Base Fee Rates

URC was approved for a base fee of [REDACTED] applied to total allowable costs, which is in accordance with the approved budget and the Task Order.

(8) Project Status

The SPFS, as presented, reflects all amounts incurred for direct costs, indirect costs, and fees for the HCI project in Afghanistan for all invoices as of September 29, 2014. The HCI project in Afghanistan has been completed and no further costs will be incurred.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
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Notes to Questioned Costs Presented on Special Purpose Financial Statement²

For the Period September 30, 2009 through September 29, 2014

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

(A) Direct Labor

URC reported personnel costs in the amount of \$4,178,045 for the period September 30, 2009 through September 29, 2014. During our audit of these costs, we noted the following, which resulted in questioned costs. See Finding 2015-2. Also see Note C for associated indirect costs and Note D for associated base fee.

	Questioned Costs
Incorrect salary increase per URC policy	\$5,065
Illegible timesheets	<u>2,991</u>
Total questioned direct labor	<u>\$8,056</u>

(B) Other Direct Costs

URC reported other direct costs in the amount of \$5,952,666 for the period September 30, 2009 through September 29, 2014. During our audit of these costs, we noted the following, which resulted in questioned costs. Also see Note C for associated indirect costs and Note D for associated base fee.

Finding Number	Observation	Questioned Costs
Ineligible costs:		
2015-1	Registration fee for Center for Human Services	\$ 13
2015-2	Overtime paid to employees	<u>121</u>
Total ineligible costs		<u>134</u>

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

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
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Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

(B) Other Direct Costs (Continued)

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>
Ineligible costs:		
2015-1	Unsupported or insufficiently supported costs	\$ 20,009
2015-3	Lack of evidence of competitive bidding	<u>138,664</u>
Total unsupported costs		<u>158,673</u>
Total questioned other direct costs		<u>\$158,807</u>

(C) Indirect Cost

URC reported indirect costs in the amount of [REDACTED] for the period September 30, 2009 through September 29, 2014. The indirect costs rates described in Note 6 were applied to the associated questioned costs identified in Notes A and B, resulting in the following questioned indirect costs.

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>
Ineligible costs:		
2015-1	G&A applied to other direct costs	\$ [REDACTED]
2015-2	G&A applied to other direct costs	[REDACTED]
Total ineligible costs		[REDACTED]
Unsupported costs:		
2015-1	G&A applied to other direct costs	[REDACTED]
2015-2	Fringe, overhead and G&A applied to direct labor	[REDACTED]
2015-3	G&A applied to other direct costs	[REDACTED]
Total unsupported costs		[REDACTED]
Total questioned indirect costs		[REDACTED]

UNIVERSITY RESEARCH COMPANY, LLC

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Notes to Questioned Costs Presented on Special Purpose Financial Statement

(Continued)

(D) Base Fee

URC reported base fee in the amount of [REDACTED] for the period September 30, 2009 through September 29, 2014. The base fee reported was [REDACTED] of total direct and indirect costs. The base fee rate was applied to the associated questioned costs identified in Notes A, B and C, resulting in the following questioned indirect costs.

<u>Finding Number</u>	<u>Observation</u>	<u>Questioned Costs</u>
Ineligible costs:		
2015-1	Base fee applied to other direct costs	\$ [REDACTED]
2015-2	Base fee applied to other direct costs	[REDACTED]
Total ineligible costs		[REDACTED]
Unsupported costs:		
2015-1	Base fee applied to other direct costs	[REDACTED]
2015-2	Base fee applied to direct labor	[REDACTED]
2015-3	Base fee applied to other direct costs	[REDACTED]
Total unsupported costs		[REDACTED]
Total questioned indirect costs		[REDACTED]



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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
University Research Company, LLC
Bethesda, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of University Research Company LLC. (URC) representing revenues received and costs incurred under Contract No. GHN-I-00-07-00003-00, Task Order No. 3 (for costs incurred in Afghanistan only) with the United States Agency for International Development (USAID) to support the Health Care Improvement project for the period September 30, 2009 through September 29, 2014, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 23, 2016. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying Detailed Audit Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and 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



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prevent, or detect and correct misstatements on a timely basis. The item reported in the accompanying Detailed Audit Findings as Finding 2015-5 is considered to be a deficiency.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify two deficiencies in internal control, described in the accompanying Detailed Audit Findings as items 2015-1 and 2015-2 that we consider to be significant deficiencies.

URC's Response to Findings

URC's response to the findings identified in our audit is included verbatim in Appendix A. URC's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended for the information of University Research Company, LLC, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

A handwritten signature in blue ink, appearing to read "Mayer Hoffmann M.C. P.C.", is written across the page.

Irvine, California
February 23, 2016



Mayer Hoffman McCann P.C.

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

INDEPENDENT AUDITOR'S REPORT

Board of Directors
University Research Company, LLC
Bethesda, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement of University Research Company, LLC (URC), representing revenues received and costs incurred under Contract No. GHN-I-00-07-00003-00, Task Order No. 3 (for costs incurred in Afghanistan only) (Task Order) with the United States Agency for International Development (USAID) to support the Health Care Improvement project for the period September 30, 2009 through September 29, 2014, and the related Notes to the Special Purpose Financial Statement, and have issued our report thereon dated February 23, 2016. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Special Purpose Financial Statement is free from material misstatement.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether URC's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned Task Order, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As we performed our testing, we considered whether the information obtained during our testing indicated the possibility of fraud or abuse. The results of our tests disclosed three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings as Findings 2015-2, 2015-3, and 2015-4.



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URC's Response to Findings

URC's response to the findings identified in our audit is included verbatim in Appendix A. URC's response was not subjected to the auditing procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended for the information of University Research Company, LLC, the United States Agency for International Development, and the Special Inspector General for Afghanistan Reconstruction, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.



Irvine, California
February 23, 2016

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
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Status of Prior Audit Findings

For the Period September 30, 2009 through September 29, 2014

We requested copies of prior audits, reviews and evaluations related to URC's work to support the health care improvement project in Afghanistan. As per communications with URC and USAID, there were no prior audits, reviews or evaluations issued for this project.

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Financial Audit of Costs Incurred under
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Detailed Audit Findings

For the Period September 30, 2009 through September 29, 2014

Finding Number 2015-1: Missing or Insufficient Source Documentation to Support Expenses and Non-Program Related Expense Claimed

Nature of Finding:

Internal control – significant deficiency

Condition:

Of the 265 other direct costs transactions tested, URC was unable to provide sufficient records to support transactions tested. Specifically, the following observations of unsupported costs were noted:

<u>Observation</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Travel and transportation sub-category:		
Missing receipts	<u>4</u>	\$ <u>79</u>
Other direct costs sub-category:		
Lack of evidence to support the individual who received the payment was an authorized payee of the vendor	3	16,172
Missing vendor's contract	1	1,949
Missing invoice	1	847
Support provided did not fully support total amount claimed	1	787
Missing vendor's signature that payment was received	<u>1</u>	<u>175</u>
Subtotal ODCs	<u>7</u>	<u>19,930</u>
Total costs for which missing or insufficient support was provided	<u>11</u>	<u>\$20,009</u>

In addition, URC erroneously claimed \$13 for a registration fee for the Center for Human Services (CHS), a related non-profit organization that shares common ownership, as other direct costs under the Task Order.

Criteria:

URC Field Operation Manual Chapter 11, Financial Management, *Financial Controls*, states, in part:

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Detailed Audit Findings

(Continued)

“...A check or wire payment must be accompanied by a cash disbursement voucher (CDV), which QB can generate. Each CDV, at minimum, must provide a brief description of the expense, the appropriate 11-digit charge code, the name of the vendor, and the names of the individuals preparing and approving the voucher.

An original invoice that clearly indicates the vendor name, goods/services provided, and date(s) of delivery/ service must also be attached. For consultant payments, include a certified list of hours worked. Before approving/issuing any payments, it is the responsibility of the COP/CD to verify that this information is complete and accurate and that the expense is in accordance with donor-stipulated rules and regulations...”

22 CFR 226.53, *Retention and access requirement for records*, states, in part:

“...(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID...”

Additionally, 48 CFR 31.201-2, *Determining Allowability*, states, in part:

“...(d) A contractor is responsible for accounting for costs appropriately and for maintaining records, including supporting documentation, adequate to demonstrate that costs claimed have been incurred, are allocable to the contract, and comply with applicable cost principles in this subpart and agency supplements...”

Cause:

Management did not closely monitor all aspects of the program to ensure documentation was properly obtained, completed and retained. Additionally, there was a lack of policies and procedures to ensure documentation is retained to support the expenses incurred.

Effect:

Failure to maintain adequate supporting documentation resulted in an inability to demonstrate that costs incurred were allowable, allocable and related to the Task Order. In addition, reporting ineligible costs incurred by its related party which is not allocable to the program raises concerns about the propriety of URC's billing and the extent of such charges. It also raises concerns that other non-program related costs incurred by its related party can be claimed to USAID without being detected.

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Detailed Audit Findings

(Continued)

Questioned Costs:

Total questioned other direct costs, including associated G&A and base fee, in the amount of \$24,324 due to missing or insufficient source documentation to support expenses and non-program expenses claimed are comprised of the following:

	Total Questioned Costs
Ineligible Costs	\$ 16
Unsupported Costs	<u>24,308</u>
Total Questioned Costs	<u><u>\$24,324</u></u>

Recommendation:

- (1) We recommend URC return \$16 to USAID for ineligible costs.
- (2) We recommend that URC either provide adequate documentation to USAID to support the costs incurred, or return \$24,308 to USAID for unsupported and insufficiently supported costs.
- (3) We recommend URC establish policies and procedures to ensure that adequate documentation is retained to support expenditures incurred.

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Detailed Audit Findings

(Continued)

Finding Number 2015-2: Lack of Adherence to URC's Payroll Policy and Task Order Requirements

Nature of Finding:

Internal control – significant deficiency
Compliance

Condition:

For the 202 field office employees' timesheets and contracts tested, the following exceptions were noted where URC did not adhere to its payroll policy and Task Order requirements:

<u>Observation</u>	<u>Number of Errors</u>	<u>Amount</u>
Direct labor:		
Incorrect salary increase per URC policy (1)	54	\$5,065
Illegible timesheet	<u>4</u>	<u>2,991</u>
Subtotal direct labor	<u>58</u>	<u>8,056</u>
Other direct costs		
Overtime paid to employee (2)	<u>1</u>	<u>121</u>
Subtotal other direct costs	<u>1</u>	<u>121</u>
Total questioned labor costs – salaries and wages	<u>59</u>	<u>\$8,177</u>

Criteria:

As to the incorrect salary increase, 48 CFR 31.205-6, *Compensation for personal services*, states, in part:

“...(3) The compensation must be based upon and conform to the terms and conditions of the contractor's established compensation plan or practice...”

Additionally, URC's Standard Operating Procedures: Afghanistan, May 2012, *Salary Increase*, states, in part:

“...An evaluation is done by the supervisor with input from the employee using the Performance Review form (see appendix 18) and from other staff as deemed necessary.

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Detailed Audit Findings

(Continued)

“The following criteria should be followed:

- Evaluation results: 0-60 points: 0%
- Evaluation results: 61-70 points: 2%
- Evaluation results: 71-80 points: 3%
- Evaluation results: 81-90 points: 4%
- Evaluation results: 91-100 points: 5%...”

Furthermore, URC’s Performance Review form (appendix 18) states the following score summary.

- “85 – 100% = Outstanding
- 70 – 85% = Very Good
- 60 – 70% = Satisfactory
- 45 – 60% = Marginal
- 45% and below = Unsatisfactory”

As to the illegible timesheets provided, 22 CFR 226.53, *Retention and Access Requirements for Records*, states, in part:

“...(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID...”

As to the overtime paid, USAID Contract No. GHN-I-00-07-00003-00, Section F.5, *Authorized Work Day/Week*, states, in part:

“No overtime or premium pay is authorized under this Task Order.”

Cause:

URC has two sets of policies for pay increases, the Standard Operating Procedures: Afghanistan (SOP) and the Field Operation Manual (FOM). These policies are not consistent. The SOP is objective and determines the percentage increase based upon points scored in an employee’s evaluation. The FOM is subjective and determines the percentage increase based upon a reviewer’s assessment of performance in relation to expectations. URC utilized the review form which calculated points scored per the SOP, but awarded the percentage increase on a subjective basis per the FOM.

The illegible timesheets occurred as a result of scanning the timesheet for transmission from the field office to headquarters, as well as a lack of review/oversight.

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Detailed Audit Findings

(Continued)

The payment of overtime occurred due to a lack of management oversight related to allowable costs under the Task Order.

Effect:

Duplicative policies can cause confusion over which policy to follow and can result in incorrect salary calculations. Failure to maintain adequate supporting documentation in the form of legible timesheets and adequate oversight to review timesheets to ensure they are legible results in an inability to demonstrate that costs incurred were allowable, allocable and related to the Task Order. Additionally, reporting unallowable costs raises concerns about the propriety of URC's billing and the extent of such charges.

Questioned Costs:

Total questioned direct labor and other direct costs, including associated fringe, overhead, G&A and base fee, in the total amount of \$15,588 due to a lack of adherence to URC's payroll policies and Task Order requirements are comprised of the following:

<u>Cost Category</u>	<u>Total Questioned Costs</u>
Ineligible costs:	
Other direct costs	\$ 146
Unsupported costs:	
Direct Labor	<u>15,442</u>
Total questioned costs	<u>\$15,588</u>

Recommendation:

- (1) We recommend that URC return \$146 to USAID for ineligible overtime costs.
- (2) We recommend that URC provide legible timesheets or return \$5,651 to USAID for unsupported costs.
- (3) We recommend that URC reimburse USAID for \$9,791 for incorrect salary increase calculation based on URC policy or demonstrate how the salary increases were within existing policy.
- (4) We recommend that URC review and modify its payroll policies so that they are consistently cited in the SOP and FOM.

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Detailed Audit Findings

(Continued)

Finding Number 2015-3: Lack of Evidence of Competitive Bidding

Nature of Finding:

Compliance

Condition:

Of the 265 other direct cost transactions tested, URC was unable to provide sufficient documentation to demonstrate a competitive bidding process to support its procurement efforts for 16 transactions as follows:

<u>Cost Category</u>	<u>Number of Transactions With Errors</u>	<u>Amount</u>
Other direct costs sub-category:		
Consultants	10	\$ 86,915
Travel and transportation	1	9,513
ODCs	<u>5</u>	<u>42,236</u>
Total unsupported competitive bidding	<u>16</u>	<u>\$138,664</u>

Criteria:

URC's Standard Operating Procedures: Afghanistan, May 2012, *Procurement, General Guidelines*, states, in part:

"...All procurements must follow the regulation and requirements of the funding agency and should be competitively bid..."

22 CFR 226.43, *Competition*, states, in part:

"All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition...Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered..."

Additionally, 22 CFR 226.46, *Procurement records*, states:

"Procurement records and files for purchases in excess of the small purchase threshold shall include the following at a minimum:

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Detailed Audit Findings

(Continued)

- “(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.”

Furthermore, 22 CFR 226.53, *Retention and Access Requirements for Records*, states, in part:

“...(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by USAID...”

Cause:

Management did not train or closely monitor its field personnel, and the field personnel did not consistently follow URC's policies to obtain and/or retain competitive bids due to difficulties in operating in a hostile environment.

Effect:

Lack of effective procurement procedures to ensure vendors and subcontractors are selected on a competitive basis can result in the acquisition of goods and/or services that are not competitively priced. In a hostile environment, effective procurement policies and procedures are critical in order to ensure funds expended are reasonable, allowable and allocable to the award.

Questioned Costs:

Total questioned other direct costs due to lack of evidence of competitive bidding, including associated G&A and base fee, total \$168,523.

Recommendation:

- (1) We recommend that URC either provide evidence to USAID that goods and/or services were competitively procured, or return \$168,523 for costs in which there was a lack of adherence to competitive bidding requirements.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

Detailed Audit Findings

(Continued)

- (2) We recommend that URC develop a more effective policy, implement procedures and provide training to field personnel to ensure vendors and subcontractors are competitively selected for goods and/or services procured as required by the CFR.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

Detailed Audit Findings

(Continued)

Finding Number 2015-4: Lack of Review on the Excluded Parties List

Nature of Finding:

Compliance

Condition:

URC was not able to provide supporting documentation to support URC conducted reviews of the Excluded Parties List System (EPLS) prior to entering into vendor contracts to verify that the vendors were not suspended, debarred or otherwise excluded from receiving Federal funds for 101 out of 112 field office employees and 181 out of 265 other direct costs transactions tested. At the conclusion of the audit fieldwork, URC did provide a follow up check on all individuals and vendors, and none of them were on the EPLS. Therefore, no costs have been questioned.

Criteria:

USAID Standard Provisions for U.S. Nongovernmental Organizations, Section M.9, *Debarment, Suspension, and Other Responsibility Matters (June 2012)*, states, in part:

- “b. The recipient agrees that, unless authorized by the AO, it will not knowingly enter into any subagreements or contracts under this award with a person or entity that is included on the Excluded Parties List System (www.epls.gov/)...”

Cause:

Management indicated that reviews were performed but was not able to locate or did not document proof of the check. Most employees who worked on the HCI project are no longer with URC, and it was difficult for URC to locate documents for the audit.

Effect:

By not checking the EPLS for vendors excluded from Federal procurement and non-procurement programs, Federal funds might be paid to a vendor that is debarred, suspended, or otherwise prohibited from receiving Federal funds. None of the vendors were determined to be on the excluded parties list and therefore no costs were questioned in this finding.

Questioned Costs:

None of the vendors were determined to be on the excluded parties list and therefore no costs were questioned.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

Detailed Audit Findings

(Continued)

Recommendation:

We recommend that URC establish procedures to ensure it reviews all vendors to ensure they do not appear as an excluded party on the System for Award Management (SAM), which has since replaced the EPLS, prior to entering into a contract for goods and/or services, and retains evidence of this review in its procurement files.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

Detailed Audit Findings

(Continued)

Finding Number 2015-5: Lack of Adherence to Policies and Procedures

Nature of Finding:

Internal control – deficiency

Condition:

Of the 265 other direct cost transactions tested, the following deviations from URC's policies and procedures were noted:

Travel and Transportation Sub-Category:

- In 2 transactions, the Chief of Party (COP) approved his own expenses.

ODC Sub-Category:

- In 27 transactions, the purchase order and purchase requisition were missing;
- In 1 transaction, the COP approved his own expense;
- In 8 transactions, the petty cash form was not completed and the transaction was missing the COP approval; and
- In 3 transactions, the petty cash advance was missing the COP approval.

Criteria:

URC's Standard Operating Procedures: Afghanistan, May 2012, *Guide for Purchasing Goods Locally*, states, in part:

"...All purchases equal to/under \$40.00 to be approved by the Finance Manager. For purchases below \$500, simplified Purchase Order Form will be used (*see appendix 9*) Purchases above \$40 to \$1,000 will be approved by the Chief of Party. For purchases over \$500 detailed request (*see appendix 10*) must be submitted to the Finance Manager and the Chief of Party. Three quotes will be obtained, either in Afghanistan or elsewhere and a final selection made. Purchases above \$1,000 must be reviewed and approved by HQ Contracting Officer. All purchases must be approved and signed in Bethesda when valued over \$5,000..."

URC-CHS Field Operations Manual 2012, Chapter 11, *Financial Management, Procedure for Requesting Petty Cash (All Employees)*, states, in part:

"(b) Obtain COP/DC/deputy/delegate signatory approval on the petty cash transaction form for permission to incur the expense..."

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
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Detailed Audit Findings

(Continued)

Additionally, the Petty Cash Transaction Form states, in part:

“...Note: COP/DCOP/delegate approval is necessary before any funds can be disbursed...”

Cause:

URC did not believe the approval of the COP was necessary since each selected petty cash transaction form was completed by the COP and Petty Cash Handler, which were the only two signatures required. The requester and witness signatures, which were included on the Petty Cash Transaction Form, were not necessarily required. Additionally, URC indicated that the COP expenses were approved by headquarters, but due to a lack of retention of historical records, such approval could not be located. In addition, URC's policy is silent as to who should review and approve the COP's expenses. Therefore, the COP approves his own expenses.

Effect:

Lack of adherence to established procedures can result in the acquisition of goods and/or services that are unauthorized and/or not allowable. In a hostile environment, following established policies and procedures are critical in order to ensure funds expended are reasonable, allowable and allocable to the award. The failure to have procedures for approval of transactions initiated by the COP can increase the risk of payment for unauthorized and/or unallowable goods and/or services.

Recommendation:

- (1) We recommend that URC provide training to its field employees to ensure they comply with established policies and procedures surrounding petty cash purchases and reimbursements.
- (2) We recommend that URC revise its procedures to include approval requirements for all goods and/or services requested by the COP.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

URC's Responses to the Findings

For the Period September 30, 2009 through September 29, 2014

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



To: Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR)

From: University Research Co., LLC (URC)

Subject: URC Response to the Draft Audit Report on the Financial Audit of Costs Incurred Under Contract No. GHN-I-00-07-00003-00 Task Order No. 3 to support the Health Care Improvement (HCI) Project for Costs Incurred in Afghanistan for the period from September 30, 2009 through September 29, 2014

Date: January 27, 2016

Foreword

This letter is in response to the draft financial audit report URC received from Mayer Hoffman McCann P.C. (MHM) on January 4, 2016. We would like to thank the members of the MHM team that conducted this audit for their professionalism and communication throughout the audit process. URC recognizes the value of audits as a management tool to further strengthen our programs and extend our appreciation to SIGAR and MHM for the opportunity to comment on the draft financial audit report.

Executive Summary

URC does not concur with (1) the value of the questioned costs and (2) the severity of the deficiencies in internal control over financial reporting (ICFR) resulting in the auditor's assessment of two significant deficiencies. See the detailed discussion on each auditor finding for further information on URC's comments on questioned direct costs, internal controls, and compliance.

Furthermore, URC does not believe that the Special Purpose Financial Statement (SPFS) and accompanying notes, as presented, is a fair representation of the financial information of costs attributable to URC activities for Afghanistan on the project. See the section for "Response to Presentation of the Special Purpose Financial Statement and Accompanying Notes" for a detailed discussion.

Questioned Direct Costs

URC acknowledges **\$12,421 out of the total \$166,863** in questioned direct costs, comprised as follows:

Finding	Questioned Direct Costs				URC	
		Ineligible		Unsupported		Acknowledgement
2015-1	\$	13		20,009	\$	860
2015-2		121		8,056		295
2015-3		-		138,664		11,266
2015-4		-		-		-
2015-5		-		-		-
Total	\$	134		166,729	\$	12,421



Questioned Indirect Costs and Base Fee

URC acknowledges **\$0 out of the total \$41,572** in questioned indirect costs and base fee. Absent other guidance, URC believes section 10-304.8(c)(4) of the Defense Contract Audit Agency (DCAA) Contract Audit Manual (CAM) should be considered, which states:

“Overhead and G&A expense applicable to unsupported costs should not be quantified in the Unsupported Costs column. The rates applicable to unsupported costs should be stated in the explanatory notes so that the rates can be applied to any portion of the unsupported base costs not accepted by the contracting officer to develop the corresponding amount of additional unaccepted overhead and G&A costs. However, questioned indirect rates should be applied to the unsupported base amount and shown in the questioned column.”

As the questioned amounts for indirect costs and the base fee were not due to errors in the application of indirect cost rates or the percentage base fee, but were constructed from the auditor’s application of percentage rates onto the questioned direct costs, URC does not believe that applicable overhead and general and administrative (G&A) expense should be quantified in the questioned costs columns on the Special Purpose Financial Statement (SPFS). URC believes such presentation would be a misrepresentation of actual questioned costs until a final determination on allowable costs has been made by the United States Agency for International Development (USAID) contracting officer / contracting officer technical representative (COTR).

Internal Controls

URC does not concur with the severity of the deficiencies in ICFR. URC acknowledges deficiencies in ICFR for certain items as noted in our response, but does not believe such deficiencies rise to the level of severity of significant deficiencies for:

1. Sufficiency of source documentation to support expenses and non-program related expenses claimed
2. Adherence to payroll policy and task order requirements

Compliance

URC does not concur with the conclusion of noncompliance related to adherence of URC’s payroll policy and Task Order requirements.

URC acknowledges the auditor observations of noncompliance related to (1) evidence of competitive bidding and (2) review of excluded parties list. However, URC does not concur with the value of any related questioned costs for the noted observations of noncompliance.

Presentation of the Special Purpose Financial Statement and Accompanying Notes

URC does not believe that the SPFS and accompanying notes, as presented, is a fair representation of the financial information of costs attributable to URC activities for Afghanistan on the project. URC’s primary concerns on the presentation relate to: (1) disclosure of proprietary rates for indirect costs and base fee and (2) the exclusion of the presentation other funds URC considered attributable to a fair presentation of costs incurred for Afghanistan that were not within the scope of the auditor performance. See the detailed discussion on the presentation of the SPFS and accompanying notes for further information.

**Response to Finding 2015-1**

Nature of Finding	Matter	Questioned Costs
Internal control – significant deficiency	Missing or insufficient source documentation to support expenses and non-program related expenses claimed	\$24,324

Recommendation(s):	<ol style="list-style-type: none"> 1. Return \$16 to USAID for ineligible costs. 2. Provide adequate documentation to USAID to support the costs incurred, or return \$24,308 to USAID for unsupported and insufficiently supported costs. 3. Establish policies and procedures to ensure that adequate documentation is retained to support expenditures incurred.
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Overall Response

URC does not concur with the total value of the questioned costs and only acknowledges **\$860** in questioned costs for Finding 2015-1. URC acknowledges deficiencies in certain internal controls, but does not concur with the assessed severity of a significant deficiency in ICFR.

Auditor Observation	Amount	URC Response
• Missing receipts (travel related)	\$ 79	Do not concur
• Linkage that individual receiving payment was an authorized payee of the vendor	16,172	Do not concur
• Missing vendor contract	1,949	Do not concur
• Missing vendor invoice	847	Acknowledge
• Support did not fully support total amount claimed	787	Do not concur
• Missing vendor signature that payment was received	175	Do not concur
• Ineligible direct cost for photocopy fee for a related non-profit organization sharing common ownership	13	Acknowledge
• Impact of application of indirect costs	4,302	Do not concur

Missing receipts (travel related)

URC does not concur with the questioned costs of “missing receipts”, comprised of:

Item		USD
Internet	\$	27.76
Passport stamp		0.67
Internet (three separate charges)		12.04
		3.51
		3.51
Taxi (four separate charges)		4.42
		4.42
		6.63
		8.84
Taxi		6.63
Total	\$	78.43



The URC policy for travel and business expenses in effect at the time of the related questioned costs (i.e., 2010) stated that miscellaneous travel-related expenses “are reimbursable when incurred, documented with receipts (if over allowable per diem), itemized and allowed for business reasons”. Furthermore, USAID operational policy Automated Directives System (ADS) section 633.3.6¹ (effective date 09/21/1998) stated that “other specific miscellaneous may be claimed over and above the calculated per diem rate” and “the employee must list these items separately on the voucher, and receipts are required if there is more than \$75.00 in cost for any single item.”

In the related period of the charges, the Department of State M&IE per diem in Kabul, Afghanistan was \$28 United States Dollars (USD). Each of the listed charges were individually itemized on travel expense statements and under the per diem (and under the threshold in USAID ADS 633.3.6) such that no receipts were considered required.

Linkage that individual receiving payment was an authorized payee of the vendor

URC does not concur with the questioned costs. Due to questions as to the stability of the banking system in Afghanistan, it was a customary practice in Afghanistan for various vendors to be paid in cash and to vendor stamp the invoice once payment has been received by the vendor. Consequently, URC operated in this manner for certain transactions.

For the questioned items, URC acknowledges documentation of the linkage between the payee and vendor could have been more explicit. However, for each noted instance, URC:

- Asserts all costs were allowable (i.e., reasonable and allocable to the project), supported, and value received.
- Provided either (a) the vendor stamped invoice to indicate payment was received and/or (b) vendor stamped purchase order and URC completed Receiving and Inspection Report to evidence provision of goods or services and URC payment.
- Provided translations of support for each voucher and assert the payee names are provided for in the vouchers. For example, the invoice for the vendor on one of the questioned items included a handwritten block lettered “signature” of the payee name in the vendor stamp of the invoice.
- No subsequent requests for payment from the vendor for the specific instances were noted.

Missing vendor contract

URC does not concur with the questioned costs. The questioned item was related to transportation services with a payee designated as “Shir Khan”. URC acknowledges linkage of the “Shir Khan” payee with the named vendors on provided contracts that did not specifically list “Shir Khan” could have been more explicit. However:

- “Shir Khan” (i.e., Shir Khan Bandar) is a border town in the Kunduz province of Afghanistan.
- The provided contracts all related to the Kunduz province.
- “Shir Khan” was the designated bank account name that had been created to receive payments, as evidenced by banking documentation provided to support the creation of the “Shir Khan” account.
- The mention of payment into the “Shir Khan” account in a translated vendor invoice appeared to provide linkage between the vendors and the “Shir Khan” payee.
- No subsequent requests for payment from the vendors for the specific instances were noted.

¹ ADS Chapter 633, *Financial Management Aspects of Temporary Duty (TDY) Travel*



Support did not fully support total amount claimed

URC does not concur with the questioned costs. The questioned item was related to the auditor's calculation of payroll taxes that the auditor believes "should" have been paid to the Afghanistan Ministry of Finance (MOF). The auditor's calculation totaled \$21,674 whereas the URC voucher totaled \$22,461, which was the amount remitted to the MOF. URC communicated to the auditor that its calculation did not include payroll taxes remitted to the MOF for (1) employee hazard pay and (2) consultants. URC provided supporting documentation of the computation of such hazard pay and consultant taxes for the applicable payment voucher questioned by the auditor.

Missing vendor signature that payment was received

URC does not concur with the questioned costs. The questioned item was related to the purchase of firefighting equipment that was paid from the URC petty cash fund. The questioned cost was based on an auditor assertion that it "cannot determine if employee received the money" to complete the transaction as the requesting employee did not sign the petty cash form to designate the transaction was completed. URC acknowledges that the employee did not mark on the internal petty cash form that the transaction was completed. However:

- URC provided a vendor stamped invoice to designate completed payment for the goods purchased.
- No subsequent requests for payment from the vendor were noted.
- The URC petty cash policy only requires Chief of Party (COP) and Petty Cash Handler signatures and both signed the petty cash form to designate the transaction was completed.

Impact of application of indirect costs (G&A and base fee)

URC does not concur with the auditor calculated value of the questioned costs. URC believes such value should be determined in coordination with the USAID contracting officer upon final determination of allowable costs.

Significant Deficiency in Internal Control over Financial Reporting

URC does not concur with the auditor assessment of a significant deficiency in ICFR for the sufficiency of source documentation to support expenses and non-program related expenses claimed. The auditor specifically states:

"Failure to maintain adequate supporting documentation resulted in an inability to demonstrate that costs incurred were allowable, allocable, and related to the Task Order. In addition, reporting ineligible costs incurred by its related party which is not allocable to the program raises concerns about the propriety of URC's billing and the extent of such charges. It also raises concerns that other non-program related costs incurred by its related party can be claimed to USAID without been [sic] detected."

URC acknowledges control deficiencies in documentation of various support (i.e., one missing invoice, one \$13 charge that was not clearly linked to the HCI project) and opportunities for enhancement of documentation (e.g., explicit linkage of payees and vendors for the noted instances). However, along with consideration of the preceding responses on each questioned costs, URC believes the aforementioned expenses were sufficiently supported, thus demonstrating an adequate system of ICFR was in place to support expenses charged to the project were allowable (i.e., reasonable and allocable to the project). In context of the project as a whole, URC acknowledges control deficiencies in some documentation, but does not believe the limited number of noted instances rises to the level of a significant deficiency in ICFR.



Response to Recommendations

1. URC acknowledges the first recommendation related to the one charge that was not clearly linked the HCI project.
2. URC acknowledges the second recommendation to provide documentation to USAID to support the costs incurred. URC does not concur with the auditor comment that costs were unsupported and/or insufficiently supported as URC believes adequate documentation was provided to the auditor to support the costs incurred (notwithstanding the questioned items for which URC acknowledged).
3. URC acknowledges the third recommendation related to policies and procedures. Please note that the URC Field Operational Manual (FOM), which is referenced by the auditor in its report, had been established and includes policies and procedures on supporting expenditures. URC will consider re-evaluation of the FOM for clarifications to enhance execution in accordance with the FOM, particularly as it relates to the retention of robust documentation.

Response to Finding 2015-2

Nature of Finding	Matter	Questioned Costs
Internal control – significant deficiency	Lack of adherence to URC’s payroll policy and Task Order requirements	\$15,588
Compliance		

Recommendation(s):	<ol style="list-style-type: none"> 1. Return \$146 to USAID for ineligible overtime costs. 2. Provide legible timesheets or return \$5,651 to USAID for unsupported costs. 3. Reimburse USAID for \$9,791 for incorrect salary increase calculation based on URC policy or demonstrate how the salary increases were within existing policy. 4. Review and modify its payroll policies so that they are consistently cited in the SOP and FOM.
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Overall Response

URC does not concur with the total value of the questioned costs and only acknowledges \$295 in questioned costs for Finding 2015-2. URC acknowledges deficiencies in certain internal controls, but does not concur with the assessed severity of a significant deficiency in ICFR.

Auditor Observation	Amount	URC Response
• Incorrect salary increase per URC policy	\$ 5,065	Acknowledge only \$174
• Illegible timesheet	2,991	Do not concur
• Overtime paid to employee	121	Acknowledge
• Impact of application of indirect costs	7,411	Do not concur

Incorrect salary increase per URC policy

URC does not concur with the value of the auditor identified questioned costs. URC believes the total instances and value of employees receiving a salary increase greater than the employee had earned were two instances for a total of \$174.47 (see calculation further below).



URC acknowledges it provided the auditors an Afghanistan Standard Operating Procedures (SOP) that was determined to have been (1) internally inconsistent [i.e., the body of the SOP was inconsistent with Appendix 18 of the SOP, the Performance Review Summary Form (PRSF), utilized in the performance of employee evaluations] and (2) inconsistent with the overall URC FOM, which along with the PRSF was the basis of salary increases.

The FOM listed percentages for salary increases based on given evaluation results and the percentage salary increase for any given evaluation result was consistent between the FOM and PRSF. Based on analysis of the salary increases in accordance with the FOM / PRSF, URC determined that for all but two instances, employee salary increases were consistent with the FOM / PSRF. The estimated financial impact over the course of the project for the two instances in which the salary increase exceeded the amount earned was computed as follows:

Employee 1	Actual Salary AFN	Corrected Salary AFN	Difference Over - AFN	Weighted Avg. Exchange USD / AFN		Difference Over - USD
2009 Base	189,000.00	189,000.00	-	N/A		-
2010	198,450.00	196,560.00	1,890.00	Feb-10, 47.3026	\$	39.96
2011	206,388.00	204,422.50	1,965.60	Apr-11, 45.2122	\$	43.47
2012	216,707.40	214,643.52	2,063.88	Mar-12, 49.2056	\$	41.94
2013 (9-mo) ²	227,542.70	225,375.50	2,167.20	Jan-13, 51.8702	\$	31.34
Project Total			8,806.55		\$	156.71

Employee 2	Actual Salary AFN	Corrected Salary AFN	Difference Over - AFN	Weighted Avg. Exchange USD / AFN		Difference Over - USD
2009 Base	252,000.00	252,000.00	-	N/A		-
2010 (3-mo) ³	264,600.00	262,080.00	2,520.00	Feb-10, 47.3026	\$	17.76
Project Total			2,520.00		\$	17.76

URC acknowledges in these two instances that the salary increase was in excess of the increase earned by the employee based on their respective performance evaluations. URC provided the FOM / PRSF and above calculation to the auditors. URC does not believe the other questioned amounts were in excess of the salary increases earned based on the FOM and employee performance reviews documented in the PRSF.

Also of note, the auditor states in its report:

“The SOP is objective and determines the percentage increase based upon points scored in an employee’s evaluation. The FOM is subjective and determines the percentage increase based upon a reviewer’s assessment of performance in relation to expectations. URC utilized the review for which calculated points scored per the SOP, but awarded the percentage increase on a subjective basis per the FOM.”

² For Employee 1, the annual salary difference in the local currency, Afghani (AFN), translated to an annual salary difference of \$41.78 USD. As field staff for the HCI-Afghanistan project ended in September 2013, the difference over in USD shown was pro-rated for nine months.

³ For Employee 2, this employee was last paid for May 2010 and was no longer with URC after that period. The annual salary difference in AFN translated to an annual salary difference of \$53.27 USD. The amount shown is pro-rated for the four months for which the salary increase was in effect (i.e., Feb to May 2010).



URC does not concur with this statement. While each performance review inherently includes subjective considerations by the reviewer, the application of percentage increases in accordance with FOM / PRSF / SOP were objective based on the following criteria of the performance review results:

Evaluation Result Per PRSF / FOM		Percent Increase
Outstanding	85-100%	4-5%
Very Good	70-85%	3-4%
Satisfactory	60-70%	2-3%
Marginal	45-60%	1-2%
Unsatisfactory	0-45%	0%

Evaluation Result Per SOP		Percent Increase
91-100 points		5%
81-90 points		4%
71-80 points		3%
61-70 points		2%
0-60 points		0%

Illegible timesheet

URC does not concur with the questioned costs. URC acknowledges the timesheets for the four noted instances were difficult to read. However, in each noted instance, URC believes the name of the employee can be determined. In addition, along with the timesheets, URC provided the related supervisor approved voucher and the employee marked payroll calculation sheet to (1) support amounts incurred and charged to the project and (2) further allow for auditor professional judgment to validate the name and hours on the timesheet. URC does not concur the related costs were inadequately supported.

Impact of application of indirect costs (G&A and base fee)

URC does not concur with the auditor calculated value of the questioned costs. URC believes such value should be determined in coordination with the USAID contracting officer upon final determination of allowable costs.

Significant Deficiency in Internal Control over Financial Reporting

URC does not concur with the auditor assessment of a significant deficiency in ICFR for the adherence to URC's payroll policy and Task Order requirements. The auditor specifically states:

“Duplicative policies can cause confusion over which policy to follow and can result in incorrect salary calculations. Failure to maintain adequate supporting documentation in the form of legible timesheets and adequate oversight to review timesheets to ensure they are legible results in an inability to demonstrate that costs incurred were allowable, allocable and related to the Task Order. Additionally, reporting unallowable costs raises concerns about the propriety of URC's billing and the extent of such charges.”



URC acknowledges control deficiencies in documentation of various support (i.e., internal inconsistency in the Afghanistan SOP related to salary increases) and opportunities for enhancement of documentation (e.g., verification of clear electronic scans of all documents). However, as noted in the preceding responses for questioned costs:

- URC acknowledges an internal inconsistency in the Afghanistan SOP, but believes that salary increases were consistent with the URC FOM / PRSF for all but the two instances for which URC acknowledged and computed the estimated financial impact.
- URC acknowledges the four noted instances that timesheets were difficult to read, but believes the names of the employees could be determined and that the other provided documentation (i.e., approved voucher and payroll calculation) supported amounts incurred and charged to the project. With consideration of such other related documents URC does not believe a limited number of timesheets retained that did not have a clear electronic scan and were difficult to read is indicative of a systematic lack of review/oversight.
- URC acknowledges the payment of \$121 in overtime for one month (i.e., April 2011) for which there was not USAID approval. However, URC does not believe this one instance was indicative of a lack of management oversight resulting in “reporting unallowable costs” which “raises concerns about the propriety of URC’s billing and the extent of such charges.” URC was cognizant of the contract clause related to overtime on the Task Order and except for one month, obtained USAID approval for overtime incurred on the project. See further discussion related to approved overtime in the following sub-section on compliance.

URC believes an adequate system of ICFR was in place to support expenses charged to the project were allowable (i.e., reasonable and allocable to the project) and supported by documentation. In context of the project as a whole, URC acknowledges control deficiencies in some documentation, but does not believe the limited number of noted instances rises to the level of a significant deficiency in ICFR.

Compliance

The auditor conclusion of noncompliance within this finding appear related to (1) salary increases that the auditor believes were in excess and (2) payment of overtime that the auditor noted was restricted by the Task Order.

As described in the preceding discussions of questioned costs and ICFR, URC acknowledges an internal inconsistency in the Afghanistan SOP related to salary increases. However, for all but the two instances recognized by URC, salary increases were in accordance with the URC FOM. Furthermore, no salary increase exceeded the five-percent maximum annual increase as designated for in section H.4(d) of the contract between URC and USAID. URC believes it was in compliance with the Task Order as it related to salary increases.

URC does not concur with the auditor comment that “the payment of overtime occurred due to a lack of management oversight related to allowable costs under the Task Order.” URC was cognizant of section F.5 of the contract between URC and USAID that stated, in part “no overtime or premium pay is authorized under this Task Order.” As URC was mindful of the aforementioned clause, when URC determined that overtime for additional security services was necessary due to the high-risk profile of the Afghanistan location, URC engaged USAID for approval. The following were provided to the auditor:

- An email dated August 10, 2011 from URC to USAID requested overtime and specifically listed June 2011 and June 2011 (it is unknown why April 2011 was not included in the request so URC acknowledges the \$121 in questioned cost for overtime incurred in April 2011).



- An email dated August 17, 2011 from USAID approved the incurrence of requested overtime.

URC believes these provided emails demonstrated its awareness of the overtime considerations within the Task Order and was not indicative of a “lack of management oversight.”

Response to Recommendations

1. URC acknowledges the first recommendation related to the one month for which there was no documented USAID approval of overtime.
2. URC acknowledges the second recommendation to provide timesheets to USAID to support the costs incurred. Please note that in context of other provided documents (i.e., approved voucher and payroll calculation), URC believes the timesheets provided to the auditors were adequate documentation to support the costs incurred.
3. URC acknowledges the third recommendation to demonstrate the salary increases were within existing policy. Please note that except for the two noted instances recognized by URC, it believes the salary increases were appropriate.
4. URC acknowledges the fourth recommendation and will re-evaluate documentation of payroll policies for internal consistency.

Response to Finding 2015-3

Nature of Finding	Matter	Questioned Costs
Compliance	Lack of evidence of competitive bidding	\$168,523

Recommendation(s):	<ol style="list-style-type: none"> 1. Either provide evidence to USAID that goods and/or services were competitively procured, or return \$168,523 for costs in which there was a lack of adherence to competitive bidding requirements. 2. Develop a more effective policy, implement procedures and provide training to field personnel to ensure vendors and subcontractors are competitively selected for goods and/or services procured as required by the CFR.
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Overall Response

URC does not concur with the total value of the questioned costs and only acknowledges **\$11,266** in questioned costs for Finding 2015-3. URC acknowledges the compliance finding that documentation was not available to support the performance of the competitive bidding process for certain transactions.

Auditor Observation	Amount	URC Response
• Consultants	\$ 86,915	Acknowledge only \$3,374
• Travel and transportation	9,513	Do not concur
• Other direct costs	42,236	Acknowledge only \$7,892
• Impact of application of indirect costs	29,859	Do not concur



Consultants

URC does not concur with the value of the questioned costs. The questioned costs for consultants were comprised of nine unique consultants (spread over ten transactions as listed in the draft audit report), with auditor questioned amounts as follows:

Consultant		Auditor Questioned		URC Acknowledged
Non-Local Consultant 1	\$	75,748	\$	-
Non-Local Consultant 2		3,000		-
Local Consultants 3 to 9 (i.e., Afghanistan based)		8,167		3,374
Total	\$	86,915	\$	3,374

URC asserts that it solicited, interviewed, and considered alternative candidates for the positions, but acknowledges the lack of robust retention of documentation of a comparative analysis for the non-selected consultants. However, URC asserts that services received were reviewed to determine costs were for reasonable and allocable to specific project objectives, with value received for the performance of the HCI-Afghanistan project.

For the non-local (i.e., non-Afghanistan based) consultants, due to the difficult and dangerous working environment in Afghanistan, recruitment of qualified consultants was challenging. URC considered other candidates who in the end did not accept the job (with copies of the other candidate resumes submitted to the auditors), but acknowledges that it did not retain other documentation to support the comparative analysis of the other candidates versus the selected candidates. Nevertheless, as communicated to the auditors, with regards to an evaluation of whether the costs were reasonable and allocable:

- “Non-Local Consultant 1”
 - Paid at daily rates between \$626.53 and \$635.76 USD. The USAID maximum authorized daily rates for the corresponding period of performance were up to \$637.77⁴. As such, the rate paid to this consultant was considered reasonable.
 - Multiple reports submitted by this consultant and provided to USAID throughout the project documented the work performed, which URC believes demonstrated the costs incurred were allocable to the project and with value received for the work performed. Such reports were reviewed and accepted throughout the project by the USAID Program Director and COTR.
- “Non-Local Consultant 2”
 - This consultant was paid a one-time \$3,000 USD fee for attendance at a Round Table Meeting on National Improvement Strategy and Infrastructure for Improving Health Care for the Afghanistan Ministry of Public Health (MoPH) meeting (four days) along with travel and preparatory and follow-up work (one to two days), which translated to a daily rate of approximately \$500 USD. The USAID maximum authorized daily rates for the corresponding period of performance were up to \$635.77. As such, the rate paid to this consultant was considered reasonable.
 - This consultant was specifically invited to attend the Round Table Meeting due to the consultant’s unique expertise in developing and implementing health care improvement strategies, which URC believes demonstrated the costs incurred were allocable to the project and with value received for the work performed.

⁴ USAID maximum daily rates from developmentnetwork.net



For the local (i.e., Afghanistan based) consultants, due to security considerations and safety concerns for Afghan nationals performing work for a foreign entity, such positions were not widely advertised in published materials, but were performed in a “word-of-mouth” nature. Auditor questioned amounts for local consultants consisted of:

Consultant	Service	Questioned AFN		Questioned USD		URC Acknowledged
Local 1	Improvement advisor	43,814	\$	969.08	\$	-
Local 2	Improvement advisor	23,460	\$	517.59	\$	-
Local 3	Improvement advisor	33,212	\$	732.75	\$	-
Local 4	COP “assistant”	134,780	\$	2,973.61	\$	1,687
Local 5	COP “assistant”	134,780	\$	2,973.61	\$	1,687

URC acknowledges a lack of robust retention of documentation of competitive bidding. However, URC provided documentation supporting the charges and believes such charges were reasonable and allocable to the project.

Consideration of Reasonable

- The appendix to the American Embassy Local Compensation Plan (LCP) for Afghanistan⁵ effective at the time of performance of the services (i.e., 2011) listed a “local compensation plan” for Embassy Kabul for a 40 hour workweek that provided for approved basic and hazard rates for various grades and steps. Section 1, item 2 in the LCP specifically listed USAID as a participating agency to the LCP.
- The improvement advisors represented doctors engaged in short-term consulting agreements and paid daily rates of \$50 to \$60 USD. With consideration of the skill-sets of these improvement advisors, URC believes the consultants would be equivalent to grades 10 through 12 in accordance with Appendix G⁶ of the United States Department of State Foreign Affairs Handbook Volume 3 Handbook 2 – Foreign Service National Handbook.

Utilizing the appendix to the LCP, the lowest applicable grade (i.e., grade 10) and lowest applicable step (i.e., step 1) would provide for a basis pay of 27,511 AFN per 40 hour work week (or approximately \$607 USD per 40 hour work week). That translates to a daily rate of approximately \$121 per 8 hour work day.

As the local improvement advisor consultants were paid daily rates under the lowest applicable grade and step, URC believes such costs were reasonable.

- The COP “assistants” were both doctors selected for the purposes of working closely with the COP and the Afghanistan MoPH in the execution of the project. These consultants were paid a daily rate of \$280 USD. With consideration of the skill-sets of the doctors, URC believes the consultants would be equivalent to grade 12 in accordance with Appendix G of the United States Department of State Foreign Affairs Handbook (i.e., the only grade to list “Medical Officer”). However, as “the establishment of more than one FSN-12 position within the same broad professional, technical, or program area...is seldom warranted”, which was a role filled by the COP, URC could conclude the COP “assistants” were at a minimum warranted the lowest applicable grade (i.e., grade 10) and lowest applicable step (i.e., step 1) for professional / specialist positions.

⁵ American Embassy – Afghanistan LE Staff Compensation Plan effective February 28, 2010 (amended October 21, 2010 to provide for UCWA)

⁶ 3 FAH-2 H-400 Appendix G, General Grade Level Guides



As such, URC believes, at a minimum, a daily rate of \$121 USD would have been considered reasonable for the COP “assistants” so that at least \$2,570 is considered reasonable. Based on the incremental difference of \$159 USD (i.e., daily rate paid of \$280 USD less daily rate of \$121 USD), the number of days worked by each doctor (i.e., 12 days each), and adjustment for taxes withheld (approximately 13-percent), URC acknowledges **\$3,374** as potential costs above “reasonable”.

Local Consultant		Actual Paid USD (tax adjusted)		IF paid at daily \$121 USD (tax adjusted)		Difference
COP “assistant” 1	\$	2,974	\$	1,285	\$	1,687
COP “assistant” 2		2,974		1,285		1,687
Total	\$	5,948	\$	2,570	\$	3,374

Consideration of Allocable

- Each expenditure summary and/or consultant agreement designated tasks that were primarily medical advisory in nature. Given the scope of the HCI project as it related to healthcare improvement, URC believes such consultancy was allocable to the project.

Travel and transportation

URC does not concur with the questioned costs. The questioned cost was related to local transportation services in Afghanistan. Specific to the selected vendor, URC asserts a solicitation and procurement process was performed, but acknowledges a lack of robust retention of documentation related to the procurement process activities for competitive bidding. However, URC asserts that services received were reviewed to determine costs were reasonable and allocable to specific project objectives, with value received for the performance of the HCI-Afghanistan project.

To support the costs incurred were reasonable, URC provided signed contracts and invoices for the selected vendor. The contracted amounts (approximately \$1,057 USD per month) were considered in-line with other local vehicle transportation services agreements for which URC had provided the auditor. Such other agreements provided to the auditor included more robust documentation of the solicitation and procurement process with documentation on competitive bidding. As the contracted amounts for the questioned vendor were considered in-line with other vendors for which competitive bidding documents were provided, URC believes the costs incurred were reasonable.

To support the costs incurred were allocable to the project and with value received, URC provided the completed invoices and driver logs demonstrating the use of local transportation for personnel to operate in the applicable region in Afghanistan covered by the vendor’s services.



Other direct costs

The auditor questioned ODC related costs were for:

Vendor – Description of Purchase		Auditor Questioned		URC Acknowledged
Vendor 1 – translation services	\$	5,784.46		5,784.46
Vendor 2 – translation services		710.39		710.39
Vendor 3 – car rent		1,821.04		-
Vendor 4 – 6,000 blankets for hospital		32,522.99		-
Vendor 5 – monthly mobile cards for staff		1,397.14		1,397.14
Total	\$	42,236.02		7,891.99

For vendors 3 and 4, URC does not concur with the questioned costs. For these vendors, URC provided full procurement documents to the auditors that included vendor quotations and documented comparative analyses of such vendor quotations.

For vendors 1, 2, and 5, URC provided vendor invoices supporting the charges and believes such charges were reasonable and allocable to the project, but acknowledges a lack of robust retention of documentation of competitive bidding. Absent any other documentation to support the analysis that such costs were reasonable and allocable, URC acknowledges the related questioned cost of **\$7,891.99** for vendors 1, 2, and 5.

Impact of application of indirect costs (G&A and base fee)

URC does not concur with the auditor calculated value of the questioned costs. URC believes such value should be determined in coordination with the USAID contracting officer upon final determination of allowable costs.

Response to Recommendations

1. URC partially acknowledges with the first recommendation to either provide evidence of competitive bidding or return the related costs. URC acknowledges that documentation of competitive bidding is not available for each questioned cost. However, except as otherwise noted, URC believes it has supported / can support that the costs are allowable (i.e., reasonable and allocable) despite the absence of robust retention of documents on competitive bidding.
2. URC acknowledges the second recommendation and will re-evaluate the existing documented policy on competitive procurement (documented within Section 13 of the URC FOM), including emphasis in training of personnel on the requirements to retain robust documentation of competitive bidding performed.



Response to Finding 2015-4

Nature of Finding	Matter	Questioned Costs
Compliance	Need to review the excluded parties list	None

Recommendation(s):	1. Establish procedures to ensure URC reviews all vendors to ensure they do not appear as an excluded party on the System for Award Management (SAM) prior to entering into a contract for goods and/or services, and retain evidence of this review in its procurement files.
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Overall Response

URC acknowledges the compliance finding related to documentation of review of the excluded parties list. While URC believes that it was in compliance per the prime award's requirement in section H.13 regarding Executive Order 13224 on Terrorism Finance and asserts performance of Excluded Parties List System (EPLS) activities occurred at the time of each purchase decision, URC acknowledges that it did not consistently retain documentation of such EPLS searches (or subsequently, SAM) for all purchase decisions.

Also, please note the criteria stated by the auditor in the draft audit report was effective June 2012. Many of the records selected for testing on the HCI project were prior to that time. As incorporated by reference in section I.1 of the HCI Indefinite Quantity Contract, URC believes it followed paragraph (d) of FAR 52.215-2 (Audit and Records – Negotiation June 1999), which states:

“(2) This paragraph may not be construed to require the Contractor or subcontractor to create or maintain any record that the Contractor or subcontractor does not maintain in the ordinary course of business or pursuant to provision of law.”

URC believes this clause expressed a clear intention to prevent the imposition of an excessive paperwork burden on contractors. Nonetheless, URC acknowledges that robust retention of historical records to document the results of EPLS, Office of Foreign Assets Control (OFAC), SAM.gov, etc. is a “best / leading” practice that was not consistently in place during the period under audit.

Response to Recommendation

URC acknowledges the recommendation. Please note, URC has a documented policy within Appendix 13.1 of the URC FOM dated 2012 (i.e., subsequent to the period for many of the auditor selections related to Afghanistan), which states:

“All organizations that receive U.S. federal funds are obliged to take adequate safeguards to ensure that no funds whatsoever are paid to individuals or organizations that are disbarred or ineligible to receive funds. Such parties are listed on the excluded Parties List System, or EPLS. URC Policy requires that any individual or entity receiving funds such as those contracted through Purchase Order, be checked first to make sure they do not appear on the EPLS. If a field office issues a PO without the involvement of the HQ Contracts Office (i.e., a PO for under \$1,000), it must check the EPLS and print a dated record of the search and attached it to the PO,” and



“Also, please note that if either an individual or entity is listed under EPLS as debarred or ineligible, no PO can be issued and an alternative source or vendor must be located for the goods or services.”

URC believes the inclusion of such information in the FOM demonstrates that URC is aware of the requirements to consider for potential excluded parties, but will assess possible updates to the FOM (e.g., reference updates to SAM.gov instead of EPLS, etc.) as well as strengthening adherence in execution in accordance with the FOM and applicable regulations.

Response to Finding 2015-5

Nature of Finding	Matter	Questioned Costs
Internal control – deficiency	Lack of adherence to policies and procedures	None

Recommendation(s):	<ol style="list-style-type: none"> 1. Provide training to its field employees to ensure they comply with established policies and procedures surrounding petty cash purchases and reimbursements. 2. Revise its procedures to include approval requirements for all goods and/or services requested by the COP.
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Overall Response

URC acknowledges control deficiencies related to the adherence to policies and procedures within the following categories:

Auditor Observation	URC Response
• COP self-approval of a limited number of expenses	Acknowledge
• Missing purchase order and purchase requisition for a limited number of items	Acknowledge
• Incomplete petty cash form / missing COP approval	Do not concur

Incomplete petty cash form / missing COP approval

The URC petty cash form for the HCI project included placements for signatures by a requestor and a witness and consists of two sections:

1. If requesting petty cash advance
2. If reconciling a petty cash advance or requesting petty cash reimbursement

The auditor concluded the petty cash transaction forms were improperly completed due to (a) missing requestor and/or witness signature and/or (b) missing COP signature in the "if requesting petty cash advance" section, indicating COP approval did not occur prior to the disbursement of funds.

In accordance with the URC-HCI Petty Cash Policy, only COP / Deputy COP / delegate approval and Petty Cash Handler completion of the petty cash transaction form was required. Each selected petty cash transaction form was completed by the COP (in the second section of the form) and Petty Cash Handler. URC acknowledges the other placements for signatures (i.e., requestor and/or witness), but did not consider such items as requirements. Furthermore, URC considered COP signature in both sections as extraneous and believe COP signature on the



petty cash form along with corresponding invoices and other documentation constituted adequate support of review and approval of petty cash transactions.

Response to Recommendations

1. URC acknowledges the first recommendation to provide training to field employees on compliance with established policies and procedures surrounding petty cash purchases and reimbursements after URC performs a re-evaluation of the URC petty cash form to remove extraneous items.
2. URC acknowledges the second recommendation and will re-evaluate its policies and procedures for approval requirements and documentation of goods and/or services requested by a COP.

Response to Presentation of the Special Purpose Financial Statement and Accompanying Notes

URC acknowledges the fair presentation of the SPFS and accompanying notes are the responsibility of management and the auditor's responsibility is to provide an opinion on such information based on its audit.

URC does not believe that the SPFS and accompanying notes, as presented, is a fair representation of the financial information of costs attributable to URC activities for Afghanistan on the project. URC's primary concerns on the presentation relate to: (1) disclosure of proprietary rates for indirect costs and base fee and (2) the exclusion of the presentation other funds URC considered attributable to a fair presentation of costs incurred for Afghanistan that were not within the scope of the auditor performance. URC provided revised presentation of the SPFS and accompanying notes to the auditor, but such presentation is not reflective in the final SPFS and accompanying notes contained within the audit reports.

Disclosure of Proprietary Rates for Indirect Costs and Base Fee

As previously discussed, absent other guidance, URC believes section 10-304.8(c)(4) of the Defense Contract Audit Agency (DCAA) Contract Audit Manual (CAM) should be considered, which states:

“Overhead and G&A expense applicable to unsupported costs should not be quantified in the Unsupported Costs column. The rates applicable to unsupported costs should be stated in the explanatory notes so that the rates can be applied to any portion of the unsupported base costs not accepted by the contracting officer to develop the corresponding amount of additional unaccepted overhead and G&A costs. However, questioned indirect rates should be applied to the unsupported base amount and shown in the questioned column.”

URC acknowledges the audit was not performed under the guidance of the DCAA. However, absent other guidance, URC believes the DCAA CAM provides guidance as to fair presentation of the impact of indirect costs and base fee. As the questioned amounts for indirect costs and the base fee were not due to errors in the application of indirect cost rates or the percentage base fee, but were constructed from the auditor's application of percentage rates onto the questioned direct costs, URC does not believe that applicable overhead and general and administrative (G&A) expense should be quantified in the questioned costs columns on the SPFS. URC believes such presentation would be a misrepresentation of actual questioned costs until a final determination on allowable costs has been made by the United States Agency for International Development (USAID) contracting officer / contracting officer technical representative (COTR).



Furthermore, contracted percentages for URC's indirect cost rates and base fee are proprietary information for which public disclosure may compromise URC's competitive position. URC believes the SPFS and accompanying notes can be fairly presented without disclosure of the specific proprietary information.

Exclusion of Presentation of Other Funds URC Considered Attributable to Afghanistan

The USAID Global Task Order related this project encompassed multiple sources of USAID funding for country specific activities, global core program management, and global common agenda purposes, activities, and programs that were not specifically allocated in the Task Order to any region or country in the performance of the project. URC considered such non-country specific allocated funds as "core funds" and "common agenda funds" that represented an allocation of costs incurred by URC for global core management and global common agenda purposes for direct labor, other direct costs, indirect costs, and fees. The allocation percentage was based on the total Afghanistan Mission funded value as a percentage of the total Task Order funded value, as follows:

<u>Modification No.</u>	<u>Effective Date</u>	<u>Amount Awarded</u>
1	02/18/10	\$ 4,250,000
2	09/30/10	5,000,000
10	05/07/12	3,700,000
15	03/04/13	<u>1,000,000</u>
Total Afghanistan Mission Funded Value		<u>\$13,950,000</u>
Total Task Order Funded Value		<u>\$91,779,438</u>
Calculated Percentage		15%

URC acknowledges the scope of the auditor performance did not include an audit of "core funds" and "common agenda funds".

However, URC believes the exclusion of such information would be misrepresentation of the financial information attributable to activities for Afghanistan, for which the fair presentation is the responsibility of management. Therefore, URC provided a presentation on the SPFS and accompanying notes for such "core funds" and "common agenda funds, and requested the related information to be specifically designated as "unaudited". Such presentation is not reflective in the final SPFS and accompanying notes contained within the audit reports.

Other Presentation Matters

In addition to the two primary concerns, URC presented other revisions to the auditor on the SPFS and accompanying notes that URC believes provides more accurate and robust disclosure. Despite the presentation being the responsibility of management, such other revisions were not reflective in the final SPFS and accompanying notes contained within the audit reports.

UNIVERSITY RESEARCH COMPANY, LLC

Financial Audit of Costs Incurred under
Contract No. GHN-I-00-07-00003-00
Task Order No.3 to support the Health Care Improvement Project
For Costs Incurred in Afghanistan Only

Auditor's Rebuttal to URC's Responses to Findings

For the Period September 30, 2009 through September 29, 2014

URC provided general management responses to the audit and audit report, as well as specific disagreements to 4 out of the 5 findings presented in this report. We have reviewed its management responses and provided the following rebuttals to the general management responses, as well as each of the findings to which it disagreed.

General Management Responses and Auditor's Rebuttal

In general, URC does not concur with (1) the value of the questioned costs and (2) the severity of the deficiencies in internal control over financial reporting (ICFR) resulting in the assessment of two significant deficiencies. Additionally, URC only acknowledges \$12,421 of the \$166,863 total questioned costs, which excludes the associated indirect costs and base fee.

Questioned Indirect Costs and Base Fee

URC disagrees to quantify and include in the SPFS and the content of the report the indirect costs and base fees associated with the questioned costs as it can be a misinterpretation of the actual questioned costs. URC cited Section 10-304.8(c)(4) of the Defense Contract Audit Agency (DCAA) Contract Audit Manual (CAM) as support for its position. This Section of the CAM does not allow indirect costs to be quantified in the unsupported costs column of the report and should be only included in explanatory notes. The applicable indirect costs and base fee have been quantified and included in the report to represent a complete overview of the total costs questioned. Since URC included the applicable indirect costs and base fee in its costs claimed under its Contract with USAID, when a direct cost is questioned, the associated indirect costs and base fee should be quantified and questioned. Additionally, the scope of our audit does not include an audit to be performed in accordance with the DCAA CAM. As such, this portion of the audit report remains unchanged.

Internal Controls

URC disagrees with the level severity of deficiencies in ICFR, specifically the internal control findings being identified as significant deficiencies. URC believes there was sufficient source documentation provided and it adheres to its payroll policy. The lack of sufficient documentation and conflicting payroll policies was the root cause of the internal control findings which were identified as significant deficiencies and contradicts what URC indicated. Additionally, the amount of questioned costs associated with these internal control findings raises the level of deficiency to significant deficiency. As such, this portion of the audit report remains unchanged.

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Auditor's Rebuttal to URC's Responses to Findings

(Continued)

Compliance

URC disagrees with the identification of non-compliance related to adherence with its payroll policy and Contract requirements, as well as the value of the questioned costs related to non-compliance with competitive bidding requirements. As discussed in the previous paragraph, since URC has conflicting payroll policies, it is unclear as to which payroll policy URC should follow. In regards to the questioned costs associated with the competitive bidding requirements, URC did not demonstrate that the goods and services acquired were procured through a competitive bidding process. The lack of documentation to support this results in the instance of non-compliance. As such, this portion of the audit report remains unchanged.

Presentation of the Special Purpose Financial Statement and Accompanying Notes

URC disagrees with the presentation of the SPFS and the accompanying notes. Specifically, URC is concerned about the disclosure of proprietary rates for indirect costs and base fee in the report, as well as the exclusion of other funds that were not within the scope of the auditor. URC does have the opportunity to request from SIGAR that proprietary information be redacted from the report before it is posted to SIGAR's website. The inclusion of indirect costs and the base fee is within the scope of our Task Order with SIGAR. The other funds as identified by URC were not within the scope of our audit and have been excluded from the report. As such, this portion of the audit report remains unchanged.

Management Responses and Auditors' Rebuttal to Each Specific Finding

Finding Number 2015-1: Missing or Insufficient Source Documentation to Support Expenses and Non-Program Related Expense Claimed

URC disagrees with the amount of questioned costs in this finding. It accepts \$860 of questioned costs related to a missing invoice and ineligible costs. URC does acknowledge that it has deficiencies in internal control, but does not concur with this finding being classified as a significant deficiency. The following represents our responses to each of URC's disagreements.

Missing Receipts (Travel Related)

URC disagrees with the travel related costs being question stating that URC's travel and business policy does not require receipts for miscellaneous travel expenses under a certain threshold. It cited USAID operational policy Automated Directives System (ADS) Section 633.3.6 indicating receipts are only required for single expense items over \$75. URC's internal policy cannot supersede any federal requirements, such as FAR 31, which requires the receipt for any expenses claimed. The only receipts

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Auditor's Rebuttal to URC's Responses to Findings

(Continued)

not required are those covered under the per diem rates, which are meals and incidental expenses (M&IE). The costs in question do not represent MI&E expenses. As such, this portion of our finding and recommendation remains unchanged.

Linkage that individual receiving payment was an authorized payee of the vendor

URC disagrees with the questioned costs indicating that due to the instability of the banking system, payments needed to be made in cash and for vendors to stamp invoices as paid. We agree with the instability of the banking system. Nevertheless, there should be adequate documentation obtained and maintained to indicate that payments made for goods or services were made to the vendors that provided the goods or services. If payment is made to someone else, adequate documentation should be obtained and maintained to support why the payment was made to another individual. In the 3 samples questioned, this linkage was not clearly defined. For example, in multiple transactions tested in the other direct costs sampled, a letter from the vendor specifying the individual to receive payment was included in the supporting documentation or the vendor stamped the check. This was not the case in the 3 questioned samples. Due to the lack of this linkage, the connection between the payee and vendor was not established. As such, this portion of our finding and recommendation remain unchanged.

Missing Vendor Contract

URC disagrees with the questioned costs, but does acknowledge that the contracts could have been more explicit. Specifically, URC indicated that "Shir Khan" is a border town in the Kunduz province of Afghanistan in which the transportation contracts related to the Kunduz province; the designated bank account name that had been created to receive payments was "Shir Khan"; the mention of payment into the "Shir Khan" account in a translated invoice appeared to provide linkage between the vendors and the "Shir Khan" payee; and no subsequent requests for payment from the vendors for the specific instances were noted. While "Shir Khan" is a border town in province of Kunduz, according to a letter from Afghanistan International Bank (AIB), the bank account was opened to an individual named Mr. Shir Khan, whom is not mentioned in the contract between URC and Ensaf Property dealer. Additionally, when we provided the invoice to our independent translator, he did not come up with the same conclusion as URC that "Shir Khan" was listed as the payee due to the fact that the invoice was extremely difficult to read and certain words were illegible. Furthermore, at the top of the invoice in question there appears to be a translated name of Malim Faridon Momand Nangahari, which is inconsistent with the other information provided by URC for the translated invoice. In the absence of sufficient, competent evidential matter, this portion of our finding and recommendation remains unchanged.

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Auditor's Rebuttal to URC's Responses to Findings

(Continued)

Support did not fully support total amount claimed

URC disagrees with the questioned costs by indicating that our calculation did not include hazard pay and consultants. We tested multiple payroll tax transactions and successfully recalculated and reconciled the tax payment to URC's supporting documentation provided to support the payment to the Ministry of Finance (MOF). For this particular sample, we could not reconcile the payments. We reviewed and recalculated the "salary sheet for URC/HCI Afghanistan Staff", as well as the "Consultant Fee Voucher/Check Request", which were included to support the payment made to the MOF. There was nothing in the initial documentation provided that indicated an amount for Hazard Pay. While URC subsequently provided an excel schedule created after the fact, this did not represent original evidence and we could not rely on the information. For example, the variance reported on the subsequent schedule vs. the URC calculated variance provided in the initial documentation did not agree to each other. As such, this portion of our finding and recommendation remains unchanged.

Missing vendor signature that payment was received

URC disagrees with the questioned costs stating that it provided the vendor stamped invoice, no subsequent requests for payment were noted, and the URC petty cash policy only requires the Chief of Party (COP) and Petty Cash Handler signatures. While a stamped invoice was provided, this does not indicate payment was made or received by the requester. In addition, we have no way of determining whether subsequent payment was requested, and it is unclear how URC has made this determination. According to Chapter 11 of URC's Financial Management Manual – *Things to keep in mind when operating a Petty Cash Fund*: "All petty cash transactions should be properly documented and contain signatures of both the person approving the transaction and the one receiving payment." In this instance, the portion of the form that was completed was the section labeled "if reconciling a Petty Cash Advance or Requesting a Petty Cash Reimbursement". As the "requesting a petty cash advance" section was not completed, we can eliminate the possibility that an advance was received, and that the individual was requesting a reimbursement. Therefore, the requester's signature should have been included to substantiate that they in fact received reimbursement for funds expended. As such, this portion of our finding and recommendation remains unchanged.

Finding 2015-2 – Lack of Adherence to URC's Payroll Policy and Task Order Requirements

URC disagrees with the total questioned costs in the amount of \$15,588, but does acknowledge \$174 in questioned costs are correct. The following represents our responses to each of URC's disagreements.

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Auditor's Rebuttal to URC's Responses to Findings

(Continued)

Incorrect Salary Increase Per URC Policy

URC disagrees with the portion of this finding related to incorrect salary increases per URC's policy. URC recognizes that the Afghanistan Standard Operating Procedure (SOP) that was provided to us is inconsistent with Appendix 18 of the SOP, the Performance Review Form, utilized in the performance of employee evaluations. However, URC stated that FOM should be utilized as a reference for all salary increases. In response to URC's comments, we disagree with the conclusion that the SOP should not be considered when testing for appropriate salary increases. Page 25 of the Afghanistan SOP clearly outlines the evaluation process and shows the appropriate salary increase depending on the evaluation score and further stating that the table should be followed. While we agree that the FOM does provide another table that corresponds with the salary increases given, we cannot determine with certainty which should be followed due to the inconsistencies. Additionally, the Afghanistan SOP was provided at the start of the audit to support URC's internal controls. Based on the SOP, of the 208 payroll transactions tested, there were 54 instances where employees were given a greater salary increase despite scoring lower in their evaluation. Furthermore, when the auditors were made aware of the FOM at the end of audit fieldwork, URC still was not able to demonstrate which policy takes precedence. With both policies in place, URC is unclear whether it adhered to the correct policy. As such, this portion of our finding and recommendation remains unchanged.

Illegible Timesheet

URC disagrees with the questioned cost, but does acknowledge that the timesheets for the four instances were difficult to read. URC indicated that it believes the name of the employee can be determined and approval can be found on the voucher and employee marked payroll calculation sheet to support the amounts incurred. However, it is clear that the approval was not legible on the actual timesheet itself. As such, this portion of our finding and recommendation remains unchanged.

Finding Number 2015-3: Lack of Evidence of Competitive Bidding

URC disagrees with the total questioned costs identified in this finding, but does acknowledge \$11,266 as being correct. The following represents our responses to each of URC's disagreements.

Consultants

URC disagrees with the questioned costs. URC asserts that it solicited, interviewed and considered alternative candidates for the positions, but acknowledges a lack of retention of documentation to support the process. URC also provides a comparison of USAID maximum allowable authorized daily rate to each consultant's daily rate in question and stated that if costs are questioned, it should be limited only

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to the amount that exceeded the USAID threshold. However, we were provided with no documentation to support that the consultant costs were competitively bid as required. As such, this portion of our finding and recommendation remains unchanged.

Travel and Transportation

URC disagrees with the questioned costs. URC asserts a solicitation and procurement process was performed, but acknowledges a lack of retention of documentation to support the process. URC asserts that the services received were reasonable and allocable and in-line with other local vehicle transportation services agreement and had provided the complete invoices and driver logs to support the costs in questioned. However, we were provided with no documentation to support that the travel and transportation costs were competitively bid as required. As such, this portion of our finding and recommendation remains unchanged.

Other Direct Costs

URC disagreed with the total questioned other direct costs stating that it provided full procurement documents for vendors 3 and 4. We did not receive full procurement documentation for either of these vendors. For vendor 4, we received a certification signed in 2015 that procurement was performed in 2011. We cannot rely on the certification as sufficient audit evidence that supports a competitive procurement was performed. As such, this portion of our finding and recommendation remains unchanged.

Finding Number 2015-5: Lack of Adherence to Policies and Procedures

URC disagrees with a portion of this finding related to incomplete petty cash transaction forms. URC has stated that the only required signatures on the form are the COP/Deputy COP and petty cash handler, which has been included, but the requester and/or witness signatures are not required in accordance with URC-HCI Petty Cash Policy. In response to URC's comments, we disagree with the conclusion that the only required signatures are the COP/Deputy COP and petty cash handler. According to Chapter 11 of URC's Financial Management Manual – *Things to keep in mind when operating a Petty Cash Fund*: "All petty cash transactions should be properly documented and contain signatures of both the person approving the transaction and the one receiving payment." While we agree that each form did contain the COP and petty cash handler's signature, the requirement as to when the signatures were required is in question, as well as the requester not signing at all. For 5 out of the 8 questioned petty cash forms, the only completed section of the form was the purpose. There was no indication on the form of when this money was disbursed, whether the recipient received the money, and whether the disbursement was made before or after the transaction occurred. While the COP and petty cash handler signed the portion

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of the form "If reconciling a petty cash advance or requesting petty cash disbursement", it is unclear what exactly they were approving as there were no values on the form, and only the purpose was noted. For the remaining 3 samples, the COP and petty cash handler did not approve the transaction prior to funds being disbursed, which is clearly indicated as a requirement on the petty cash form which states "COP/DCOP/delegate approval is necessary before any funds can be disbursed". As such, this portion of our finding and recommendation remains unchanged.

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