

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 24-15 Financial Audit

**USAID's Grain Research and Innovation
Program in Afghanistan: Audit of Costs
Incurred by Michigan State University**



**MARCH
2024**

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 8, 2013, the U.S. Agency for International Development (USAID) awarded a cooperative agreement to Michigan State University (MSU) in support of its Global Center for Food System Innovation. The initial agreement had a funding ceiling of \$24,919,790 for the Center's world-wide activities. On March 13, 2017, the award was amended to support a \$19,500,000 Grain Research and Innovation program in Afghanistan (GRAIN). GRAIN's goal was to enhance the productivity, profitability, and climate resilience of wheat crops in Afghanistan through improved agronomic practices, access to high-yielding seed varieties, wheat genetics, post-harvest management, and linkages to the private sector. USAID modified the agreement 12 times. The modifications decreased GRAIN's budget to \$15,172,500 but did not change the program's period of performance end of September 30, 2022.

SIGAR's financial audit, performed by Conrad LLP (Conrad), reviewed \$10,548,041 in costs charged to the agreement from January 1, 2019, through September 30, 2022. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in MSU's internal controls related to the agreement; (2) identify and report on instances of material noncompliance with the terms of the agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether MSU has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of MSU's Special Purpose Financial Statement (SPFS). See Conrad's report for the precise audit objectives.

In contracting with an independent audit firm and drawing from the results of the audit, auditing standards require SIGAR to review the work performed. Accordingly, SIGAR oversaw the audit and reviewed its results. Our review disclosed no instances wherein Conrad did not comply, in all material respects, with generally accepted government auditing standards issued by the Comptroller General of the United States.

March 2024

USAID's Grain Research and Innovation Program in Afghanistan: Audit of Costs Incurred by Michigan State University

SIGAR 24-15-FA

WHAT SIGAR FOUND

Conrad identified two deficiencies in MSU's internal controls and two instances of noncompliance with the terms of the agreement. For example, Conrad identified eight instances in which MSU charged the program for costs that lacked sufficient evidence demonstrating that the costs were allocable to the program. Missing documentation included items that would substantiate employee compensation, the accuracy of vendor payments, proof of payment, and the allocability of procurements. MSU was notified of the deficiencies and compliance issues prior to publication of this report.

Because of the deficiencies in internal controls and the instances of noncompliance, Conrad identified \$19,505 in total questioned costs, consisting of \$82 in ineligible costs—costs prohibited by the award and applicable laws and regulations, and \$19,423 in unsupported costs—costs not supported with adequate documentation or that did not have required prior approval.

Category	Ineligible	Unsupported	Total Questioned Costs
Salaries	\$0	\$1,583	\$1,583
Contractual Services	\$0	\$513	\$513
Materials/Supplies	\$65	\$0	\$65
Other	\$0	\$13,319	\$13,319
Facilities and Administrative	\$17	\$4,008	\$4,025
Total Costs	\$82	\$19,423	\$19,505

Conrad identified two prior audit reports that were relevant to MSU's agreement. The reports contained five findings and accompanying recommendations that could have had a material effect on the SPFS. Conrad conducted follow-up procedures and concluded that MSU took adequate corrective action on all five findings.

Conrad issued an unmodified opinion on MSU's SPFS, noting it presents fairly, in all material respects, revenues received, costs incurred, and balances for the period audited.

WHAT SIGAR RECOMMENDS

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

1. **Determine the allowability of and recover, as appropriate, \$19,505 in questioned costs identified in the report.**
2. **Advise MSU to address the report's two internal control findings.**
3. **Advise MSU to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

March 11, 2024

The Honorable Samantha Power
Administrator, U.S. Agency for International Development

Mr. Joel Sandefur
Mission Director, U.S. Agency for International Development

We contracted with Conrad LLP (Conrad) to audit the costs incurred by Michigan State University (MSU) under a cooperative agreement from the U.S. Agency for International Development (USAID) in support of its Global Center for Food Innovation Grain Research and Innovation program in Afghanistan (GRAIN).¹ The goal of GRAIN was to enhance the productivity, profitability, and climate resilience of wheat crops in Afghanistan through improved agronomic practices, access to high-yielding seed varieties, wheat genetics, post-harvest management, and linkages to the private sector. Conrad reviewed \$10,548,041 in costs charged to the agreement from January 1, 2019, through September 30, 2022. Our contract with Conrad required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

1. Determine the allowability of and recover, as appropriate, \$19,505 in questioned costs identified in the report.
2. Advise MSU to address the report's two internal control findings.
3. Advise MSU to address the report's two noncompliance findings.

Conrad discusses the results of the audit in detail in the attached report. We reviewed Conrad's report and related documentation. We also inquired about Conrad's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements 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 MSU's Special Purpose Financial Statements, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Conrad is responsible for the attached auditor's report, dated February 6, 2024, and the conclusions expressed therein. However, our review disclosed no instances in which Conrad did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

Please provide documentation related to corrective actions taken and/or target dates for planned completion for the recommendations to sigar.pentagon.audits.mbx.recommendation-followup@mail.mil, within 60 days from the issue date of this report.

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-275)

¹ The cooperative agreement number is AID-OAA-A-13-00006.

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
in support of the Grain Research and Innovation (GRAIN) project in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Table of Contents

	Page
Transmittal Letter	
Background	1
Work Performed	2
Objectives, Scope, and Methodology	2
Summary of Results	5
Review of Prior Findings and Recommendations	7
Summary of Michigan State University's Responses to Findings	7
Independent Auditor's Report on the Special Purpose Financial Statement	8
Special Purpose Financial Statement	11
Notes to the Special Purpose Financial Statement	12
Notes to Questioned Costs Presented on the Special Purpose Financial Statement	14
Independent Auditor's Report on Internal Control	16
Independent Auditor's Report on Compliance	18
Schedule of Findings and Questioned Costs	20
Status of Prior Audit Findings	25
Appendices:	
Appendix A: Michigan State University's Responses to Audit Findings	28
Appendix B: Auditor's Rebuttal to MSU's Responses to Audit Findings	32



February 6, 2024

Board of Directors
Michigan State University
East Lansing, MI

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

Conrad LLP (referred to as Conrad or we) hereby provides to you our final report, which reflects results from the procedures we completed during our audit of Michigan State University's (MSU) Special Purpose Financial Statement under Cooperative Agreement No. 306-AID-OAA-A-13-00006 awarded by the United States Agency for International Development's (USAID) Mission in Afghanistan for the period January 1, 2019 through September 30, 2022 in support of the Grain Research and Innovation (GRAIN) project.

On December 19, 2023 we provided USAID with a draft report reflecting our audit procedures and results. MSU received a copy of the report on January 12, 2024 and provided written responses subsequent thereto. These responses have been considered in the formation of the final report, along with the written and oral feedback provided by USAID and MSU. Additionally, MSU's responses and Conrad's corresponding rebuttals are incorporated into this report following our audit reports.

Thank you for providing us the opportunity to work with you, and to conduct the audit of this Agreement.

Sincerely,

A handwritten signature in blue ink that reads "S Perera". The signature is written in a cursive style with a horizontal line underneath the name.

Sam Perera, CPA, CFE, CITP, CGMA
Partner

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
in support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Background

On March 8, 2013, the United States Agency for International Development (USAID) awarded Cooperative Agreement No. 306-AID-OAA-A-13-00006 (agreement/award) to Michigan State University (MSU) in support of the Global Center for Food System Innovation (GCFSI) project. In addition to USAID, the agreement identified MSU and other non-federal entities as cost-share and leverage sources of funding. USAID's initial funding estimate was \$24,919,790. The original period of performance was November 8, 2012, through September 30, 2017. The agreement was modified twelve times, which increased USAID's estimated amount to \$34,519,790 and extended the completion date to September 30, 2022.

On March 13, 2017, USAID issued Modification No.9 which included the initial buy-in of the USAID/Afghanistan's GRAIN program, setting aside \$19.5 million of the \$34.5 million USAID award amount for GRAIN with a period of performance from March 13, 2017, to September 30, 2022.

The objective of the GRAIN program was to enhance the productivity, profitability, and climate resilience of wheat-based systems in Afghanistan, through improved agronomic practices, better access to high-yielding seed varieties, improved wheat genetics, post-harvest management, and better linkages to the private seed sector and other actors along the wheat value chain in Afghanistan.

Summary of Cooperative Agreement, GRAIN portion only, Modification No.9-12

Cooperative Agreement Number	Original Budget and Period of Performance			Modified Budget and Period of Performance		
	Original Approved Budget (\$)	Start Date	End Date	No. of Modifications	Final Approved Budget (\$)	End Date
306-AID-OAA-A-13-00006*	\$19,500,000	03/13/17	09/30/22	4	\$15,172,500	No change

* Indicates the award is a close-out.

MSU is a public land-grant research university in East Lansing, Michigan. It was founded in 1855 as the Agricultural College of the State of Michigan.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
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For the Period of January 1, 2019, through September 30, 2022

Work Performed

Conrad LLP (Conrad) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of the GRAIN portion of the award. Conrad reviewed MSU's Special Purpose Financial Statement (SPFS), applicable to the GRAIN program, for revenue received, costs incurred, and balances under the program totaling \$10,813,057, \$10,548,041, and \$256,016, respectively, for the period January 1, 2019, through September 30, 2022.

Objectives, Scope, and Methodology

Audit Objectives

The objectives of the audit of the aforementioned award include the following:

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether MSU's SPFS for the award presents fairly, in all material respects, the revenues received, costs incurred, items directly procured by the U.S. Government, and the 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 sufficient understanding of MSU's internal controls related to the award, assess control risk, and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether MSU 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 MSU 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 close-out audit included all revenue and costs incurred during the period of January 1, 2019, through September 30, 2022, totaling \$10,813,057, and \$10,548,041, respectively, under the agreement. Our testing of the indirect costs charged to the agreement was limited to determining that indirect costs were calculated using the correct revised negotiated indirect cost rates, or provisional indirect cost rates, as applicable for the given fiscal year, as approved in the Negotiated Indirect Cost Rate Agreement (NICRA) and subsequent applicable amendments.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
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For the Period of January 1, 2019, through September 30, 2022

Audit 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 on June 29, 2023, with representatives of MSU, Conrad, SIGAR, and USAID participating via conference call. The purpose of the entrance conference was to discuss the nature, timing, and extent of the audit work to be performed, establish key contacts throughout the engagement, and schedule status briefings. We also discussed the timeframe for the completion of the audit.

Planning

During our planning phase, we performed the following:

- Obtained an understanding of MSU. The scope of our audit includes MSU's management and employees, internal and external factors that affect operations, and accounting policies and procedures. We gained an understanding of MSU through interviews, observations, and reading policies and procedure manuals. We interviewed top management and employees responsible for significant functions and/or programs. In addition, we reviewed the following:
 - Award and modifications;
 - The Standards for Internal Control in the Federal Government (GAO-14-704G: Published: September 10, 2014);
 - Foreign Assistance Act of 1961, as amended;
 - 2 CFR 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards;
 - 2 CFR 700, USAID Uniformed Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards;
 - USAID Automated Directives System (ADS) Chapter 303;
 - Terms of the Cooperative Agreement between USAID and MSU; and
 - MSU Policies and Procedures.
 - Close-out requirements and evidence supporting close-out procedures performed.
- Financial reconciliation – obtained and reviewed all financial reports submitted during the audit period and reconciled these reports to the accounting records to ensure all costs are properly recorded.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
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For the Period of January 1, 2019, through September 30, 2022

Special Purpose Financial Statement

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the award, and the applicable general ledgers;
- Documented procedures associated with controlling funds, including bank accounts and bank reconciliations;
- Traced receipt of funds to the accounting records;
- Sampled and tested the costs incurred to ensure the costs were allowable, reasonable, and allocable to the award;
- Reviewed personnel costs to ensure they were supported, authorized, reasonable, and allowable; and
- Recalculated indirect costs using the approved provisional indirect cost rates to ensure they were accurately applied.

Internal Controls Related to the Agreement

We reviewed MSU's internal controls related to the agreement to gain an understanding of the implemented system of internal control to obtain reasonable assurance of MSU's financial reporting function and compliance with applicable laws and regulations. The review was accomplished through interviews with management and key personnel, reviews of MSU's policies and procedures, and the identification and tests of key controls within significant transaction cycles.

Compliance with the Agreement Requirements and Applicable Laws and Regulations

We performed tests to determine whether MSU complied, in all material respects, with the award requirements, 2 CFR 200, 2 CFR 700, ADS 303, and any other applicable laws and regulations. We also identified and reported 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

We requested prior audit reports from MSU and SIGAR, and reviewed these reports to determine if there were any findings and recommendations that could have a potential impact on this audit. We also conducted a search online of various governmental websites including SIGAR (www.sigar.mil), USAID (www.usaid.gov), and other Federal agencies, to identify previous engagements that could have a material effect on MSU's SPFS. For the engagements identified, Conrad evaluated the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS.

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Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
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For the Period of January 1, 2019, through September 30, 2022

Our review procedures included holding discussions with management regarding corrective actions taken, reviewing evidence of revised policies and procedures or other applicable recommended actions, as well as conducting tests of items similar to those found in the prior findings. See the *Status of Prior Audit Findings* section on page 25.

Exit Conference

An exit conference was held on December 7, 2023, via conference call. Participants included representatives from Conrad, MSU, SIGAR, and USAID. During the exit conference, we discussed the preliminary results of the audit and reporting process.

Summary of Results

We have summarized the details of these results in the Findings and Questioned Costs subsection below. Our summary is intended to present an overview of the audit results and is not intended to be a representation of the audit results in their entirety.

Auditor's Opinion on the SPFS

Conrad issued an unmodified opinion on the fairness of the presentation of the SPFS.

We identified \$19,505 in total questioned costs, which comprised of \$82 in ineligible costs and \$19,423 in unsupported costs. Ineligible costs are explicitly questioned because they are unreasonable, prohibited by the award's provisions or applicable laws and regulations, or not related to the award. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

Internal control findings were classified as a deficiency, a significant deficiency, or a material weakness based on their impact on MSU's SPFS. In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. In situations in which control and compliance findings pertained to the same matter, the findings were consolidated within a single finding.

Internal Controls

Our audit identified two (2) internal control deficiencies. See *Independent Auditor's Report on Internal Control* on page 16.

Compliance

The results of our testing identified two (2) instances of noncompliance. See the *Independent Auditor's Report on Compliance* on page 18.

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Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
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For the Period of January 1, 2019, through September 30, 2022

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. MSU self-disclosed three instances of alleged fraud that could have a potential impact on the Program and the SPFS. Based on further discussions with MSU and review of the alleged incidences of fraud, an internal investigation into these allegations was conducted and the results found that there was no monetary or material effect to the Program or the SPFS during the period under review. As such, there are no further communications warranting additional consideration.

Finding Number	Nature of Finding	Matter	Ineligible Costs	Unsupported Costs	Cumulative Questioned Cost
2023-01	Non-compliance and Internal Control – Deficiency	Lack of sufficient evidence, missing procurement documentation, invoice, and/or proof of payment for costs	\$ -	\$ 19,423	\$ 19,423
2023-02	Non-compliance and Internal Control – Deficiency	Ineligible cost charged to the Program	82	-	19,505
Total Questioned Costs			\$ 82	\$ 19,423	\$ 19,505

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
in support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Review of Prior Findings and Recommendations

Based on our request and search of prior engagements pertinent to MSU's activities under the agreement, we identified two (2) prior engagements that contained five (5) findings and accompanying recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures which included a discussion with the management, reviewing evidence of revised policies and procedures or other applicable recommended actions, and performing tests of the similar areas surrounding these issues during our audit. Based on our review, MSU had taken adequate corrective actions on all findings and recommendations. See *Status of Prior Audit Findings* on page 25 for a detailed description of the prior findings and recommendations.

Summary of MSU's Responses to Findings

The following represents a summary of the responses provided by MSU to the findings identified in this report. The complete responses received can be found at *Appendix A* starting at page 28 of this report.

- (1) **Finding 2032-01:** MSU disagreed with this finding. Although it provided only limited documentation supporting the questioned amounts, MSU noted that it believes all costs within this finding are adequately supported.
- (2) **Finding 2023-02:** MSU acknowledged this finding and provided documentation that questioned ineligible costs were reimbursed to USAID.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Board of Directors
Michigan State University
East Lansing, MI

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

Report on the Special Purpose Financial Statement

We have audited the accompanying Special Purpose Financial Statement (the Statement) of Michigan State University (MSU) and the related notes to the Statement, with respect to the Cooperative Agreement No. 306-AID-OAA-A-13-00006 (agreement/award) awarded by the U.S. Agency for International Development (USAID) in support of the Grain Research and Innovation (GRAIN) project, for the period of January 1, 2019 through September 30, 2022.

In our opinion, the Statement referred to above presents fairly, in all material respects, the respective revenue received, costs incurred, and balances for the indicated period of January 1, 2019, through September 30, 2022, in accordance with the terms of the award and requirements provided by the Office of Special Inspector General for Afghanistan Reconstruction (SIGAR).

Basis for Opinion

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Statement section of our report. We are required to be independent of MSU, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis of Presentation and Accounting

We draw attention to Note 1 and 2 to the Statement, which describes the basis of presentation and the basis of accounting. As described in Note 1 to the Statement, the Statement is prepared by MSU on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

(Continued)

- 8 -

Responsibilities of Management for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements provided by SIGAR. Management is also responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of the Statement that it is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement

Our objectives are to obtain reasonable assurance about whether the Statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance, and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 MSU's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated February 6, 2024 on our consideration of MSU's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, terms of the award, 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 MSU's internal control over financial reporting and compliance.

Restriction on Use

This report is intended for the information of MSU, USAID, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. 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.

Conrad LLP

Lake Forest, California
February 6, 2024

Michigan State University

Financial Audit of the Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
in support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Special Purpose Financial Statement

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						(4)
Revenue	\$ 11,922,500	\$ 10,813,057	\$ -	\$ -	\$ -	
Total revenues	<u>\$ 11,922,500</u>	<u>\$ 10,813,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
Costs incurred:						
Salaries	3,895,478	2,039,249	-	1,583	1,583	(A)
Fringes	619,937	416,992	-	-	-	
Graduate Tuition	-	-	-	-	-	
Fellowships	-	-	-	-	-	
Travel	726,811	499,616	-	-	-	
Contractual Services	5,296,613	3,850,795	-	513	513	(B)
Materials/Supplies	383,768	255,554	65	-	65	(C)
Equipment	-	-	-	-	-	
Other/In-country expenses	1,415,885	1,598,649	-	13,319	13,319	(D)
Subawards	891,061	847,714	-	-	-	
Facilities & Administrative (F&A)	<u>1,942,947</u>	<u>1,039,472</u>	<u>17</u>	<u>4,008</u>	<u>4,025</u>	(E)
Total costs incurred	<u>\$ 15,172,500</u>	<u>\$ 10,548,041</u>	<u>\$ 82</u>	<u>\$ 19,423</u>	<u>\$ 19,505</u>	
Outstanding fund balance	<u>\$ (3,250,000)</u>	<u>\$ 265,016</u>				(6)

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

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Notes to Special Purpose Financial Statement¹

(1) **Basis of Presentation**

The accompanying Special Purpose Financial Statement (Statement) includes costs incurred for the USAID/Afghanistan buy-in portion of the USAID Cooperative Agreement (agreement/award) #306-AID-OAA-A-13-00006 for the period of January 1, 2019, through September 30, 2022. Because the Statement presents only a selected portion of the operations of Michigan State University (MSU), it is not intended to and does not represent the financial position, changes in net position, or cash flows of MSU. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic MSU financial statements.

(2) **Basis of Accounting**

Expenditures reported on the Statement are reported on a cash basis and such expenditures are in accordance with the cost principles of the Uniform Guidance, 2 CFR 200.

(3) **Foreign Currency Conversion Method**

For purposes of preparing the Statement, conversions from foreign currency to United States dollars (USD) were not required. The Statement was prepared using MSU's Operating Statements/ledgers and all expenses paid in foreign currency were converted to USD prior to posting to the Operating Statement.

(4) **Revenues**

Revenues included in the Statement represent the funds MSU received as reimbursement from USAID for the allowable and eligible costs incurred under the buy-in portion of Modifications #10, #11 and #12 of the Cooperative Agreement through the audit period end date of September 30, 2022. Although Modification #10 was obligated prior to the period of audit, actual revenue from the modification was received during the audit period and is included in the Statement. In addition, during the audited period, in-country activities were impacted by the emergency evacuation of in-country personnel therefore Modifications #11 and #12 were not fully expended.

(5) **Costs Incurred by Budget Category**

The budgeted amounts presented are reflective of the full project period for the buy-in portion of the agreement (Modifications #9, #10, #11, and #12), which extends outside of the audited period. The budget categories and associated amounts presented reflect the anticipated

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

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Notes to Special Purpose Financial Statement¹

spending by budget line for the buy-in portion of the agreement, however the actual incurred costs by budget category are for the audit period January 1, 2019, through September 30, 2022.

(6) Balance

Budget Column: The variance between the budgeted revenues and the budgeted expenses is due to the budgeted revenue of \$11,922,500 representing the obligated amounts associated with the modifications to the award and the budgeted expenses representing the amount budgeted for the full project period, which included an additional \$3,250,000 of budgeted expenses prior to the audit period start.

Actual Column: The variance presented in the Actual column represents the difference between actual revenues received and the actual total costs incurred during the audit period.

(7) Currency

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

(8) Program Status

The GRAIN (Grain Research and Innovation) – Afghanistan Project, initially funded by the buy-in portion of Modification #9 of the agreement is complete. Currently, the obligated award amount is \$15,172,500 with a period of performance end date of September 30, 2022. The internal MSU account will not be closed until after the completion of this audit.

(9) Subsequent Events

The MSU internal financial account assigned to the agreement will remain open at MSU until the completion of this audit.

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

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(A) Salaries

MSU reported a total of \$2,039,249 for Salaries for the period of January 1, 2019, through September 30, 2022.

During our audit of these costs, we noted the following:

- One (1) instance where MSU was unable to provide adequate support such as a pay slip to prove one employee received payment for the pay period worked.
- One (1) instance where MSU did not provide a complete personnel file for one employee to include documentation such as pre-screening/background check support, resume, an employment agreement, pay raise authorization letters, performance evaluations, and qualification certifications.

The issues identified above resulted in total unsupported Salaries cost of \$1,583. See **Finding No. 2023-01** in the *Schedule of Findings and Questioned Costs* section of this report.

(B) Contractual Services

MSU reported a total of \$3,850,795 for Contractual Services costs for the period of January 1, 2019, through September 30, 2022. During our audit of these costs, we noted one (1) instance where MSU did not provide the relevant invoice for the transaction. This issue resulted in total unsupported Contractual Services costs of \$513. See **Finding No. 2023-01** in the *Schedule of Findings and Questioned Costs* section of this report.

(C) Materials/Supplies

MSU reported a total of \$255,554 for Materials/Supplies for the period of January 1, 2019, through September 30, 2022. During our audit of these costs, we noted one (1) instance where MSU purchased and returned an item valued at \$653. However, MSU only partially reversed the amount of the general ledger in the amount of \$588 and charged an ineligible restocking fee of \$65 to the Program. This resulted in total ineligible Materials/Supplies costs of \$65. See **Finding No. 2023-02** in the *Schedule of Findings and Questioned Costs* section of this report.

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.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Notes to Questioned Costs Presented on the Special Purpose Financial Statement²

(D) Other/In-Country Expenses

MSU reported a total of \$1,598,649 for Other/In-Country Expenses for the period of January 1, 2019, through September 30, 2022. During our audit of these costs, we noted five (5) instances where the relevant proof of payment or procurement documentation was not provided to substantiate the costs charged to the Program. This resulted in unsupported questioned costs of \$13,319. See **Finding No. 2023-01** in the *Schedule of Findings and Questioned Costs* section of this report.

(E) Facilities & Administrative

MSU reported a total of \$1,039,472 for Facilities & Administrative costs for the period of January 1, 2019, through September 30, 2022. The Facilities & Administrative associated with questioned costs identified in **Notes A through D** above resulted in total unsupported Facilities & Administrative costs of \$4,008 and total ineligible Facilities & Administrative costs of \$17. This resulted in total questioned Facilities & Administrative costs of \$4,025.

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.

(Continued)



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Board of Directors
Michigan State University
East Lansing, MI

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Michigan State University (MSU) under Cooperative Agreement No. 306-AID-OAA-A-13-00006 (agreement/award) in support of the Grain Research and Innovation project in Afghanistan for the period of January 1, 2019, through September 30, 2022. We have issued our report thereon dated February 6, 2024 with an unmodified opinion.

Internal Control over Financial Reporting

In planning and performing our audit of the Statement for the period of January 1, 2019, through September 30, 2022, we considered MSU's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Statement, but not for the purpose of expressing an opinion on the effectiveness of MSU's internal control. Accordingly, we do not express an opinion on the effectiveness of MSU's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified.

(Continued)

- 16 -

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify two (2) deficiencies in internal control as described in the accompanying *Schedule of Findings and Questioned Costs*. Findings 2023-01 and 2023-02 are considered to be deficiencies.

MSU's Response to Findings

MSU's response to the findings identified in our audit is included verbatim at the *Appendix A*. MSU's response was not subjected to the auditing procedures applied in the audit of the 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 MSU's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control. Accordingly, this communication is not suitable for any other purpose.

Restriction on Use

This report is intended for the information of MSU, USAID, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905, should be considered before any information is released to the public. 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.

The image shows a handwritten signature in blue ink that reads "Conrad LLP". The signature is written in a cursive, slightly stylized font.

Lake Forest, California
February 6, 2024

(Continued)



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Board of Directors
Michigan State University
East Lansing, MI

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

We have audited, the Special Purpose Financial Statement (Statement) and related notes to the Statement, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, by Michigan State University (MSU) under Cooperative Agreement No. 306-AID-OAA-A-13-00006 (agreement/award) in support of the Grain Research and Innovation program, for the period of January 1, 2019 through September 30, 2022. We have issued our report thereon dated February 6, 2024 with an unmodified opinion.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MSU's Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and the aforementioned agreement, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed two (2) instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as Findings 2023-01 and 2023-02.

MSU's Response to Findings

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

Purpose of this Report

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

(Continued)

- 18 -

Restriction on Use

This report is intended for the information of MSU, USAID, and SIGAR, and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. 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.

Conrad LLP

Lake Forest, California
February 6, 2024

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation project in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Schedule of Findings and Questioned Costs

Finding 2023-01: Lack of sufficient evidence of procurement documentation, invoice, and/or proof of payment for costs that were charged to the Program.

Nature of Finding: Non-Compliance and Internal Control – Deficiency

Condition: Conrad tested the following:

- 122 transactions out of 540 transactions in the Salaries category, representing \$224,320 out of a total \$2,039,249 in this category;
- 51 transactions out of 900 transactions in the Contractual Services category, representing \$923,760 out of a total of \$3,850,795 in this category; and
- 65 transactions out of 2,532 transactions in the Other/In-Country cost category, representing \$433,132 out of a total of \$1,598,649 in this category.

During our testing to determine if costs incurred under the agreement were adequately supported and allowable, we noted the following:

Salaries

- One (1) instance where MSU was unable to provide a pay slip demonstrating the employee received payment for the pay period worked. This resulted in \$1,455 of unsupported Salaries costs.
- One (1) employee's personnel file was missing key documentation including resume, employment agreement, pay raise authorization letters, performance evaluations, qualification certifications, and evidence indicating a screening/background check had been conducted. This resulted in \$128 of unsupported Salaries costs.

Contractual Services

- One (1) instance where an invoice was not provided to substantiate the costs incurred. This resulted in \$513 of unsupported Contractual Services costs.

Other/In-Country

- Four (4) instances where the relevant supporting documentation of proof of payment was not provided to substantiate the costs charged to the Program.
- One (1) instance where the relevant supporting documentation for procurements was not provided to substantiate the costs charged to the Program. This resulted in \$13,319 of unsupported Other/In-Country costs.

These instances resulted in total questioned costs of \$15,415.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Schedule of Findings and Questioned Costs (continued)

Criteria:

MSU's Federal and State Cost Policy, Basic Cost Principles, states in part:

"Expenses incurred on sponsored program accounts must be allowable, reasonable, allocable, and consistently treated between a direct cost and something normally treated as an indirect or a Facilities & Administrative (F&A) cost. In addition, sufficient documentation must be available (attached to transaction, maintained in department, etc.) to demonstrate that the following basic cost principles are met."

MSU's Personnel File Policy, Personnel File Maintenance and Retention, states in part:

"MSU Human Resources is responsible for compiling all employee personnel files including gathering documentation from units and electronic systems or other areas as needed. Units are expected to comply with all MSU Human Resources records requests. A personnel file and its component personnel records must be retained in compliance with the law, the MSU Human Resources Records Retention Schedule."

MSU's GRAIN Field Operations and Finance Manual, Section 4.01 Field Operations File Management, states, in part:

"Working files from the Field Office are maintained through a Google Drive, led by the Director of Operation (DOO) and supported by the Operations and Logistics Manager (OLM) and Fiscal Officer (FO). Reference Appendix 23. Field Operations File Map for a detailed map of files stored on this system. The DOO should retain a backup of these files on a hard drive. The hard drive should be stored in a theft-proof, fire-proof safe. Access to Field Operations Files is granted through the DOO with a regular review of access and permissions by the FO."

2 CFR 200.403, Factors affecting allowability of costs, states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...

(g) Be adequately documented..."

2 CFR 200.334, Retention requirements for records, states in part:

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Schedule of Findings and Questioned Costs (continued)

“Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report...”

Cause: Prior to the evacuation in August of 2021, MSU’s operational staff in the Afghanistan field office did not follow MSU’s Field Operations File Management Policy and failed to back up files on a hard or Google drive. During the evacuation MSU destroyed hard copy documentation. Because of this, MSU’s operational staff were unable to locate documentation to substantiate the items questioned and the associated costs charged to the Program.

Effect: Lack of sufficient documentation for expenses paid and incurred may have resulted in the United States government overpaying for goods and services.

Questioned Costs: We identified \$15,415 in unsupported costs and \$4,008 in associated F&A costs which resulted in \$19,423 in total questioned costs.

Recommendation:

- (1) We recommend that MSU provide supporting invoices, proof of payment, procurement documentation for the costs in question or return \$19,423 of unsupported costs.
- (2) We recommend that MSU develop and implement additional policies and procedures to ensure all records are stored and backed up in accordance with MSU guidelines.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Schedule of Findings and Questioned Costs (continued)

Finding 2023-02: Ineligible costs charged to the Program.

Nature of Finding: Non-Compliance and Internal Control – Deficiency

Condition: Conrad tested 17 transactions out of 78 transactions in the Materials/Supplies cost category, representing \$73,495 out of a total of \$255,554. We noted one (1) instance where MSU was charged a restocking fee of \$65 for an item that was purchased in error and was later returned. When MSU recorded the return, they correctly reversed the amount of the item's value in their general ledger but charged the program for the \$65 restocking fee. We are questioning the restocking fee of \$65, as an ineligible cost as the item purchased was not related to the program and the restocking should have been reversed out and refunded to the U.S. government.

Criteria:

MSU's GRAIN Field Operations and Finance Manual, Section 6.04 Review of Supporting Document After Payment, states, in part:

"...5. DOO will review the documents provided by the Provider, consulting with FO as necessary, and respond to Provider via email with questions or acceptance of documents, with this email confirmation and all supporting documents saved in the Field Ops Folder (see Appendix 23. Field Operations File Map).

6. FO will separate any unallowable expenses (fines) from the invoice, ensuring these are NOT billed to the project account but rather, billed to another MSU account per MSU internal policy..."

MSU's Federal and State Cost Policy, Basic Cost Principles, states in part:

"Expenses incurred on sponsored program accounts must be allowable, reasonable, allocable, and consistently treated between a direct cost and something normally treated as an indirect or an F&A cost. In addition, sufficient documentation must be available (attached to transaction, maintained in department, etc.) to demonstrate that the following basic cost principles are met.

*-Allowable: The cost must comply with the policies and procedures of MSU, as well as the specific project terms and conditions of the agreement, and be adequately documented;
2 CFR 200.403*

*-Reasonable: The cost does not exceed that which would be incurred by a prudent person;
2 CFR 200.404*

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation program in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Schedule of Findings and Questioned Costs (continued)

-Allocable: The cost must be allocated to the project(s) in accordance with the benefits received; 2 CFR 200.405

-Consistently Treated: The cost must be accorded consistent treatment; i.e., an expense may not be charged to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the award as an indirect cost; 2 CFR 200.403."

2 CFR 200.403, Factors affecting allowability of costs, states in part:

"Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards:

(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles...

(g) Be adequately documented..."

2 CFR 200.303, Internal Controls, states in part:

"The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award..."

Cause: MSU was unaware that the restocking fee for returned items not related to the program was an unallowable cost.

Effect: The government paid for restocking fees when it should not have.

Questioned Costs: We identified \$65 in ineligible costs and \$17 in associated Facilities & Administrative costs which resulted in \$82 in total questioned costs.

Recommendation:

- 1) **Removed.** We previously recommended MSU to refund USAID \$82. However, MSU provided evidence that the questioned amount has been refunded. As such we have removed this recommendation.
- 2) We recommend that MSU provide training to all staff and management to ensure any associated restocking fees for returned items not related to the program are unallowable and need to be reversed out or refunded to the US government.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation project in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Status of Prior Audit Findings

We requested prior audit reports, evaluations, and reviews from MSU, SIGAR, and USAID pertaining to the agreement activities under this audit. We identified four prior audit reports which contained five findings and recommendations that could have a material effect on the SPFS or other financial data significant to the audit objectives. We conducted follow-up procedures, including discussion with MSU's management, and performed testing of similar activities during our audit. We have summarized the results of our procedures below:

- 1. Financial Audit of costs incurred of the USAID resources managed by Michigan State University (MSU) under USAID's Grain Research and Innovation (GRAIN) program, Cooperative Agreement No. AID-306-OAA-A-13-00006 for the period from January 1, 2018, to December 31, 2018**

Finding #1: Ineligible and unsupported Costs

Issue: The external auditors identified that MSU charged ineligible costs and unsupported costs noted by the following issues described below:

- 1) MSU charged ineligible costs of \$2,397 for visa fines and vendor taxes.
- 2) MSU charged a duplicate salary of \$6,250 for an MSU GRAIN employee for the month of April 2018 and did not provide a credit transaction to evidence the reversal in the project ledger provided to the external auditors.
- 3) Salaries/wages paid for 3 risk coordinators and billed by vendor in the amount of \$2,250 in April 2018 but was not supported by terms of the vendor agreement.
- 4) Excess of rent charged in the amount of \$1,835 paid by MSU was not supported by the service agreement.

Status: For the current engagement, Conrad reviewed MSU's general ledger and tested Salaries, Travel, Contractual Services, Materials/Supplies, Subawards, and Other/In-Country Expense transaction samples for the audit period. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that MSU has taken adequate corrective action on this finding.

Finding #2: Lack of procurement documentation showing open and free competition

Issue: MSU charged \$3,583.99 to the program without any documentation showing a proper cost analysis was done. The auditor was provided with one checklist which said the transaction was "Awarded to lowest cost, qualified, responsible, and responsive bidder", however, this one page did not meet the requirements of cost analysis, resulting in unsupported questioned costs of \$3,583.99.

Status: For the current engagement, Conrad reviewed MSU's general ledger and tested Salaries, Travel, Contractual Services, Materials/Supplies, Subawards, and Other/In-Country Expense

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation project in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Status of Prior Audit Findings (Continued)

transaction samples for the audit period. Although in Finding 2023-01, Conrad noted there was unsupported procurement documentation in Other/In-Country Expense transactions, MSU stated a price reasonableness was conducted. However, the cause of MSU not providing the procurement documentation to Conrad was due to the emergency evacuation in Afghanistan and MSU's operational staff in the Afghanistan field office were unable to locate documentation. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that MSU has taken adequate corrective action on this finding.

Finding #3: General internal control findings

Issue: MSU did not have a finalized written field manual for its GRAIN program in Afghanistan, therefore, there were several day-to-day internal control deficiencies in local procurements, local payroll, project accounting and payments, and local taxes. This did not result in any questioned costs.

Status: For the current engagement, Conrad obtained and reviewed MSU's policies and procedures during this audit period. Based on MSU providing a GRAIN Field Operations and Finance Manual that was in effect as of January 1, 2019, and then revised on April 28, 2021, Conrad determined this issue was not repeated. As such, Conrad concluded that MSU has taken adequate corrective action on this finding.

2. SIGAR 19-56 Financial Audit – USAID's Support of the Grain Research and Innovation (GRAIN) Project in Afghanistan: Audit of Costs Incurred by Michigan State University during March 13, 2017 – March 12, 2018.

Finding 2019-01: Lack of evidence for exclusion and anti-terrorist check

Issue: MSU did not provide evidence, during or conclusion of fieldwork, to demonstrate if four contract vendors have ever been excluded or debarred. For one vendor, MSU did not perform the exclusion check, and for the other three, MSU was unable to locate evidence to support the exclusion check. As the auditor conducted the exclusion checks and determined that none of the vendors were an excluded party, no costs were questioned.

Status: For the current engagement, Conrad reviewed MSU's general ledger and tested Salaries, Travel, Contractual Services, Materials/Supplies, Subawards, and Other/In-Country Expense transaction samples for the audit period and requested evidence of exclusion checks run on employees and vendors prior to payment. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that MSU has taken adequate corrective action on this finding.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation project in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Status of Prior Audit Findings (Continued)

Finding 2019-02: Lack of evidence to support price reasonableness of procurement expenses

Issue: MSU did not have any evidence to support a price reasonableness check being done, during Other/In-Country expense testing. The lack of procurement documentation resulted in \$18,661 in questioned costs.

Status: For the current engagement, Conrad reviewed MSU's general ledger and tested Salaries, Travel, Contractual Services, Materials/Supplies, Subawards, and Other/In-Country Expense transaction samples for the audit period. Although in Finding 2023-01, Conrad noted there was unsupported procurement documentation in Other/In-Country Expense transactions, MSU stated a price reasonableness was conducted. However, the cause of MSU not providing the procurement documentation to Conrad was due to the emergency evacuation in Afghanistan and MSU's operational staff in the Afghanistan field office were unable to locate documentation. Based on Conrad's testing, this issue was not repeated. As such, Conrad concluded that MSU has taken adequate corrective action on this finding.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
Awarded by the United States Agency for International Development
In support of the Grain Research and Innovation project in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

MSU's Responses to Audit Findings

MSU Response to Conrad, LLC Finding 2023-01: Lack of sufficient evidence of procurement documentation, invoice, and/or proof of payment for costs that were charged to the Program.

MSU believes that all direct costs within the \$15,415 identified as questioned costs by Conrad are allowable expenses that supported the GRAIN project. The questioned costs have support documentation, although MSU acknowledges that in some cases, the specific documentation requests by Conrad could not be fulfilled. Working in Afghanistan presented unique and challenging circumstances, including multiple partial evacuations due to safety concerns and a final evacuation that resulted in the destruction of paper documentation to protect the identity of GRAIN staff and partners. Although MSU believes the missing documentation was initially obtained by the GRAIN project team, it was not electronically retained in a timely manner before the urgent evacuation from Afghanistan.

Although a minimal amount of documentation was not provided, MSU believes all costs within this finding are adequately supported. As such, regarding Conrad's first recommendation, MSU believes that the documentation provided is sufficient and the costs should not be refunded to USAID. However, MSU acknowledges the second recommendation and will develop additional procedures related to record storage, for projects in high-risk international locations.

Below is additional information for each questioned cost. Please note that to protect the identity of in-country staff, partners and vendors, names are not included in MSU's written response. However, support documentation with identifying information is included in Appendices.

Salaries

Conrad: One (1) instance where MSU was unable to provide a pay slip demonstrating the employee received payment for the pay period worked. This resulted in \$1,455 of unsupported Salaries costs.

Conrad sampled more than 120 salary transactions. Samples included 26 in-country personnel and more than 60 in-country pay slips, which included details such as pay period and allowances, signed by the employee. The individual in this instance worked full-time for the benefit of GRAIN from 1 December 2018 through 15 January 2020, and received a monthly paycheck during that time period. The pay slip for the \$1,455.79 is the only pay slip that MSU was unable to locate. Although the pay slip was not provided, MSU believes that this individual's routine monthly salary cost was allowable and in support of the GRAIN project and as such, should not be refunded to USAID.

Conrad: One (1) employee's personnel file was missing key documentation including resume, employment agreement, pay raise authorization letters, performance evaluations, qualification certifications, and evidence indicating a screening/background check had been conducted. This

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
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In support of the Grain Research and Innovation project in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

MSU's Responses to Audit Findings

resulted in \$128 of unsupported Salaries costs.

MSU's GRAIN project occasionally employed interns at a reasonable hourly rate, as in the case of this sample. The individual was not a full-time or regular employee, therefore some of the documentation typically obtained was not relevant. However, the pay slip with hours worked and signatures of both the intern and supervisor, as well as the debarment verification for the individual, were provided to Conrad (Attachment I). Although a contract was not located, support documentation of the hours worked, confirmation by the supervisor, and verification that the individual was not on an excluded parties list was submitted. These documents are sufficient to support the \$127.81 pay as allowable and therefore should not be refunded to USAID.

Contractual Services

Conrad: One (1) instance where an invoice was not provided to substantiate the costs incurred. This resulted in \$513 of unsupported Contractual Services costs.

In Afghanistan, the GRAIN project supported programs in multiple regions. Regional Office expenses were regularly submitted to the main GRAIN office in Kabul for reimbursement. This sample represents \$512.68 of these regular costs for the Nangarhar Regional GRAIN office. The support previously provided to Conrad (Attachment II) includes a listing of their routine costs, such as cleaning supplies, internet, and labor for experiments. Although MSU acknowledges that individual receipts for each line item were not located, MSU believes that the allowable costs in Attachment II were necessary and in support of the GRAIN project, and therefore should not be refunded to USAID.

Other/In-Country

Conrad: Four (4) instances where the relevant supporting documentation of proof of payment was not provided to substantiate the costs charged to the Program.

MSU believes all four instances identified by Conrad as lacking proof of payment are adequately supported. All costs have the required invoices/receipts demonstrating payment, as would typically be required to seek reimbursement from the federal government.

To assist in the management of financial risk to sponsors, MSU utilizes a process (Attachment III), whereas MSU uses unrestricted, university funds to provide initial funding for in-country operations. These funds, often referred to as petty cash, are used for in-country project costs and sponsors are not charged for the costs until receipts have been submitted and reviewed by MSU's central office in East Lansing. In each of the four instances noted by Conrad, the only document that could not be

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
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For the Period of January 1, 2019, through September 30, 2022

MSU's Responses to Audit Findings

located is the in-country petty cash log, which is the reconciled itemization of how the MSU provided funding was used.

All questioned costs have the required support documentation that demonstrates allowability of the costs to the federal government. Although MSU acknowledges that the petty cash log should have been retained, MSU believes that sufficient documentation to support the costs was provided. One missing document that reconciles university funding, not federal funding, should not diminish the adequacy of the relevant documentation to support the expenses. All costs are allowable, in support of the GRAIN project and are sufficiently documented. Therefore, MSU believes the costs should not be refunded to USAID.

Please see the below references for the four noted instances.

- Attachment IV includes the previously provided support documentation for one instance of \$7,008.36, which represents sixteen costs. All of these costs are adequately supported, represent costs for the benefit of the GRAIN project and were properly procured.
- Attachment V includes the previously provided support documentation for one instance of \$1,044.87, which represents two costs. These costs are adequately supported, represent costs for the benefit of the GRAIN project and were properly procured.
- Attachment VI includes the previously provided support documentation for one instance of \$2,301.92, which represents eight costs. All of these costs are adequately supported, represent costs for the benefit of the GRAIN project and were properly procured.
- Attachment VII includes the previously provided support documentation for one instance of \$1,810.39, which represents four costs. All of these costs are adequately supported, represent costs for the benefit of the GRAIN project and were properly procured.

Conrad: One (1) instance where the relevant supporting documentation for procurements was not provided to substantiate the costs charged to the Program.

In this instance, MSU engaged in the services of a translator at a rate of 5 AFN per word, which converts to approximately \$.07 USD per word, for a total of \$1,153.37 in services (Attachment VIII). MSU acknowledges that GRAIN's Field Operations and Finance Manual indicated that quotes would be obtained for this level of cost and MSU believes that quotes were obtained but could not be located. However, obtaining bids/quotes at this threshold is not required by MSU policy nor by the federal government, as it is significantly less than the federal micro-purchase threshold.

In addition, the rate of \$.07 per word is competitive and reasonable. Online searches resulted in quotes for professional translator services ranging from \$.10 to \$.20 per word, depending on several factors. Some of the searches are provided in Attachment VIII.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
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For the Period of January 1, 2019, through September 30, 2022

MSU's Responses to Audit Findings

The translation rate was reasonable, in support of the project, and did not require procurement quotes or bidding based on federal government procurement guidelines in 2 CFR 200. Therefore, MSU believes that the amount is adequately supported and should not be refunded to USAID.

MSU Response to Conrad, LLC Finding 2023-02: Ineligible costs charged to the Program.

MSU acknowledges that the amount questioned should be returned to USAID and completed the refund of \$82.35 on 26 January 2024 (Attachment IX) in the ASAP draw system. This refund includes \$65.35 in direct costs and \$17.00 in associated Facilities and Administrative costs.

MSU will provide campus resources to clarify that restocking fees for returned items not related to a federally sponsored program must be removed from an internal MSU sponsored program account.

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Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
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For the Period of January 1, 2019, through September 30, 2022

Auditor's Rebuttal to MSU's Responses to Audit Findings

MSU agreed with Finding 2023-02 and disagreed with Finding 2023-01. We have reviewed MSU's responses and provided the following rebuttals:

Finding 2023-01: MSU acknowledged specific documentation requests by Conrad could not be fulfilled due to a lack of electronic records retained in a timely manner before the urgent evacuation from Afghanistan. MSU disagreed with Conrad's first recommendation and stated that the documentation provided is sufficient and the costs should not be refunded to USAID. MSU acknowledges the second recommendation and states they will develop additional procedures related to record storage for projects in high-risk international locations. MSU provided a response to each sample identified as questioned costs below:

- Conrad identified one (1) instance in Salaries costs testing where MSU was unable to provide a pay slip demonstrating the employee received payment for the pay period worked. MSU stated that although the pay slip was not provided, MSU believes that this individual's routine monthly salary cost was allowable and in support of the GRAIN project and as such, should not be refunded to USAID.

Auditor's Rebuttal

MSU was unable to provide a pay slip or any alternative documentation to substantiate if the employee received payment for the pay period selected for our sample selection. As such, our finding and recommendation related to this matter remain unchanged.

- Conrad identified one (1) instance in Salaries costs testing where one employee's personnel file was missing key documentation including resume, employment agreement, pay raise authorization letters, performance evaluations, qualification certifications, and evidence indicating a screening/background check had been conducted. MSU stated the pay slip with hours worked and signatures of both the intern and supervisor, as well as the debarment verification for the individual, were provided to Conrad (Attachment I). MSU indicated the documents provided in Attachment I are sufficient to support the \$127.81 pay as allowable and therefore should not be refunded to USAID.

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
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In support of the Grain Research and Innovation project in Afghanistan

For the Period of January 1, 2019, through September 30, 2022

Auditor's Rebuttal to MSU's Responses to Audit Findings

Auditor's Rebuttal

The document in Attachment I noted in MSU's management response was previously provided to Conrad in the original sample package. However, the key documents as stated in our finding, including resume, employment agreement, pay raise authorization letters, performance evaluations, qualification certifications, and evidence indicating a screening/background check had been conducted, were still missing. As such, our finding and recommendation related to this matter remain unchanged.

- Conrad identified (1) instance in Contractual costs testing where an invoice was not provided to substantiate the costs incurred. MSU indicated the documents included in Attachment II including listing of their routine costs, such as cleaning supplies, internet, and labor for experiments, are sufficient to support the costs and should not be refunded to USAID. However, MSU acknowledged that individual receipts for each line item were not located.

Auditor's Rebuttal

The document in Attachment II, noted in MSU's management response, was previously provided to Conrad in the original sample package which was a budget request that is insufficient to substantiate the work performed and how the costs incurred support the Program. Additionally, MSU acknowledged that individual receipts for each line item were not located. As such, our finding and recommendation related to this matter remain unchanged.

- Conrad identified four (4) instances in Other In-Country costs testing where the relevant supporting documentation of proof of payment was not provided to substantiate the costs charged to the Program. MSU stated its process is to use petty cash for in-country project costs and sponsors are not charged for the costs until receipts have been submitted and reviewed by MSU's central office in East Lansing. MSU indicated that invoices/receipts demonstrating payment were provided for each of the four instances noted by Conrad and are sufficient to support the costs and should not be refunded to USAID. However, MSU acknowledges that the petty cash log was not provided.

Auditor's Rebuttal

The invoices/receipts provided by MSU are insufficient as they did not support that the appropriate vendors, providing goods and services, received payment. As stated in the finding, although in each of the four instances MSU provided the vendor's invoices, there were no acknowledgments

(Continued)

Michigan State University

Financial Audit of Revenue Received and Costs Incurred under
Cooperative Agreement No. 306-AID-OAA-A-13-00006
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For the Period of January 1, 2019, through September 30, 2022

Auditor's Rebuttal to MSU's Responses to Audit Findings

from the vendors demonstrating the invoices were paid, such as proof of payments to the vendors. As such, our finding and recommendation related to this matter remain unchanged.

- Conrad identified one (1) instance in Other/In-Country costs testing where the relevant supporting documentation for procurements was not provided to substantiate the costs charged to the Program. MSU acknowledges that GRAIN's Field Operations and Finance Manual indicated that quotes would be obtained for this level of cost but could not be located. MSU stated bids/quotes at this threshold are not required by MSU policy nor by the federal government, as it is significantly less than the federal micro-purchase threshold. For the sample in question, MSU indicated that they engaged the services for a translator at a rate of 5 AFN per word, which converts to approximately \$.07 USD per word, for a total of \$1,153.37 in services which they believed to be competitive and reasonable. As a price comparison, MSU provided documentation in Attachment VIII of searches that resulted in quotes for professional translator services ranging from \$.10 to \$.20 per word, depending on several factors.

Auditor's Rebuttal

The documentation provided in Attachment VIII is insufficient 1) since MSU policy required quotes for micro-purchases, then MSU should adhere to its policy, 2) the quotes provided are not sufficient to demonstrate they were reasonable, as the quotes provided did not include when the quotes were obtained to confirm if the prices reflected the historical rates at the time of purchase for the sample in question, and 3) if the quotes received were related to the translation services were within the scope of services required to support the Program. As such, our finding and recommendation related to this matter remain unchanged.

Finding 2023-02: MSU acknowledged the amount questioned should be returned to USAID and provided documentation in Attachment IX that MSU has completed the refund of \$82.35 on January 26, 2024. Additionally, MSU acknowledges the second recommendation noted in this finding and stated they will provide campus resources to clarify that restocking fees for returned items not related to a federally sponsored program must be removed from an internal MSU sponsored program account.

Auditor's Rebuttal:

Based on MSU's additional document provided, Conrad concludes that MSU provided reimbursement to USAID for the ineligible costs identified. As a result, we have removed the first recommendation noted in this finding which recommended reimbursement.

SIGAR's Mission

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

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SIGAR's Mission

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