

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 15-53 Financial Audit

USAID's Measuring Impact of
Stabilization Initiative: Audit of Costs
Incurred by Management Systems
International



APRIL
2015

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On March 14, 2012, the U.S. Agency for International Development (USAID) issued a task order with a cost of \$5 million for the initial 6-month period to Management Systems International (MSI) to implement the Measuring Impact of Stabilization Initiative (MISTI). The main objective of MISTI was to provide independent performance monitoring verification and evaluation for the USAID Mission for Afghanistan's stabilization program. After eight modifications, the total estimated cost of the task order was increased to nearly \$22 million, and the period of performance was extended to March 13, 2015.

SIGAR's financial audit, performed by Crowe Horwath LLP (Crowe Horwath), reviewed \$7,212,834 in expenditures charged to the award from March 14, 2012, through September 13, 2013. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in MSI'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 MSI has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of MSI's Special Purpose Financial Statement. See Crowe Horwath's report for the precise audit objectives.

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

April 2015

USAID's Measuring Impact of Stabilization Initiative: Audit of Costs Incurred by Management Systems International

SIGAR 15-53-FA

WHAT THE AUDIT FOUND

Crowe Horwath LLP (Crowe Horwath) identified two significant deficiencies in internal control and two instances of noncompliance with the terms and conditions of the task order. Combined, the deficiencies in internal control and instances of non-compliance resulted in two findings relating to cash management procedures and financial reporting. Crowe Horwath did not note any instances of fraud or abuse during the audit.

Crowe Horwath did not identify any questioned costs, which would have included unsupported costs—costs not supported with adequate documentation or that did not have the required prior approval—and ineligible costs—costs prohibited by the task order, applicable laws, or regulations. However, Crowe Horwath determined that Management Systems International (MSI) drew down more funds than required in order to meet cash needs, resulting in a \$46 loss in interest to the U.S. government.

Category	Ineligible	Unsupported	Total Questioned Costs
Costs Incurred	\$0	\$0	\$0
Totals	\$0	\$0	\$0

Crowe Horwath did not identify any prior reviews or assessments that pertained to MSI's implementation of the Measuring Impact of Stabilization Initiative or were material to the Special Purpose Financial Statement.

Crowe Horwath issued an unmodified opinion on MSI's Special Purpose Financial Statement, noting that it presents fairly, in all material aspects, revenues received, costs incurred, and the balance for the indicated period audited.

WHAT SIGAR RECOMMENDS

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

- 1. Collect \$46 in interest from MSI.**
- 2. Advise MSI to address the report's two internal control findings.**
- 3. Advise MSI to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

April 21, 2015

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

Mr. William Hammink
USAID Mission Director for Afghanistan

We contracted with Crowe Horwath LLP (Crowe Horwath) to audit the costs incurred by Management Systems International (MSI) under a USAID task order to implement the Measuring Impact of Stabilization Initiative.¹ Crowe Horwath's audit covered \$7,212,834 in expenditures charged to the task order from March 14, 2012, through September 13, 2013. 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 the audit, SIGAR recommends that the USAID Mission Director for Afghanistan:

- 1. Collect \$46 in interest from MSI.**
- 2. Advise MSI to address the report's two internal control findings.**
- 3. Advise MSI to address the report's two noncompliance findings.**

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

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

John F. Sopko
Special Inspector General
for Afghanistan Reconstruction

(F-055)

¹ USAID awarded task order number AID-306-TO-12-0004, issued under USAID contract number AID-OAA-I-10-0002, to MSI to implement the Measuring Impact of Stabilization Initiative, which is designed to provide independent performance monitoring verification and evaluation for the USAID Mission for Afghanistan's stabilization program.



Management Systems International (MSI)
Special Purpose Financial Statement
Measuring Impact of Stabilization Initiative (MISTI)
For the Period March 14, 2012, through September 13, 2013
(With Independent Auditor's Report Thereon)

Table of Contents

Transmittal Letter	1
Summary	2
Independent Auditor’s Report on the Special Purpose Financial Statement	6
Independent Auditor’s Report on Internal Control	11
Independent Auditor’s Report on Compliance	13
SECTION I: Schedule of Findings and Questioned Costs	15
APPENDIX A: Views of Responsible Officials	18



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**Crowe Horwath LLP**

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Transmittal Letter

April 6, 2015

To the President and Management of Management Systems International
200 12th Street South, Suite 1200
Arlington, VA 22202 USA

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our audit of Management Systems International's (MSI's) contract task order with the United States Agency for International Development (USAID) that funded the Measuring Impact and Stabilization Initiative program (MISTI).

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

When preparing our report, we considered comments, feedback, and interpretations of MSI, the Office of the Special Inspector General for Afghanistan Reconstruction, and USAID provided both in writing and orally throughout the audit planning and fieldwork phases. Management's written responses are incorporated into the final report and are followed by auditor's responses, if necessary.

Thank you for providing us the opportunity to work with you and to conduct the financial audit of MSI's MISTI program.

Sincerely,

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

Bert Nuehring, CPA, Partner
Crowe Horwath LLP



www.crowehorwath.com

Summary

Background

Management Systems International (MSI) entered into a task order and fixed daily rate plus cost reimbursement contract with the United States Agency for International Development (USAID) to implement the Measuring Impact of Stabilization Initiative (MISTI). The project's objectives are to:

- Provide independent impact assessment and evaluation of USAID stabilization programs;
- Collect, synthesize and analyze data at the sub-district, district, provincial and regional levels to identify the most effective drivers of stabilization outcomes, track higher-order stabilization trends, and help shape U. S. Government (USG) and Government of the Islamic Republic of Afghanistan (GIROA) policy and practice related to transition;
- Contribute to the larger body of knowledge on best practices and lessons learned related to the design, implementation and assessment of stabilization activities within a counterinsurgency context.

The MISTI program (unaudited by Crowe) provides independent performance monitoring verification and evaluation of the \$250 million USAID/Afghanistan stabilization program (identifying trends in over 80 key districts, including in the most unstable parts of the country); and synthesis of data at the village and district levels to help shape Afghanistan and U.S. Government stabilization and transition policy. The centerpiece of the project is the MISTI Stabilization Trends and Impact Evaluation Survey (MISTI Survey). This is the single largest survey effort ever undertaken in Afghanistan, surveying between 35,000 and 40,000 Afghans on a semi-annual basis. By measuring and mapping stabilization trends and impacts, communicating best practices and lessons learned on design, implementation, and assessment of stabilization activities, MISTI is helping improve coordination between and within the U.S. Government, the Afghan government, and other donors to achieve stabilization and transition goals.

The task order number AID-306-TO-12-00004 and contract number AID-OAA-I-10-00002 incorporated an initial estimated cost of \$5,000,000 for the base period of performance from March 14, 2012 through September 13, 2013 and funded the Measuring Impact of Stabilization Initiative (MISTI). Through eight modifications, the project's period of performance was extended to March 13, 2015, and the total estimated cost was increased to \$21,716,214. During our audit period of performance, from March 14, 2012 through September 13, 2013, MIS incurred costs totaling \$7,212,834 in Federal program costs.

Work Performed

Crowe Horwath LLP (Crowe) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct a financial audit of MSI's MISTI program for the period from March 14, 2012, through September 13, 2013.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the Special Purpose Financial Statement for task order no. AID-306-TO-12-00004 under Contract No. AID-OAA-I-10-00002 presents fairly, in all material respects, revenues received, costs incurred, and balance for the period audited in conformity with the terms of the award and accounting principles generally accepted in the United States of America or other comprehensive basis of accounting.

Audit Objective 2 – Internal Controls

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

Audit Objective 3 – Compliance

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

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of the audit included the period March 14, 2012, through September 13, 2013, for the MISTI program. The audit was limited to those matters and procedures pertinent to the contract that have a direct and material effect on the Special Purpose Financial Statement (SPFS) and evaluation of the presentation, content, and underlying records of the SPFS. The audit included reviewing the financial records that support the SPFS to determine if there were material misstatements and if the SPFS was presented in the format required by SIGAR. In addition, the following areas were determined to be direct and material and, as a result, were included within the audit program for detailed evaluation:

- Allowable Costs;
- Allowable Activities;
- Cash Management;
- Equipment and Property Management;
- Period of Availability of Federal Funds;
- Procurement;
- Reporting; and
- Special Tests and Provisions

Methodology

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

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

With regard to Audit Objective 2 regarding internal control, Crowe requested and MSI provided copies of policies and procedures and verbally communicated those procedures that do not exist in written format to provide Crowe with an understanding of the system of internal control established by MSI. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls

identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the MSI's compliance with requirements applicable to the contract. Crowe identified – through review and evaluation of the contract task order executed by and between MSI and USAID, the Federal Acquisition Regulation (FAR), – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, vouchers submitted to USAID for payment, procurements, property and equipment dispositions, subcontracts issued under the task order and corresponding costs incurred, and project reports for audit. Supporting documentation was provided by MSI and subsequently evaluated to assess MSI's compliance. Testing of indirect costs was limited to determining whether indirect costs were calculated and charged to the U.S. Government in accordance with the contract restrictions, and if adjustments were made, as required and applicable.

Regarding Audit Objective 4, Crowe inquired of both MSI and USAID related to prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and the required corrective action. We reviewed the annual reports and 10Qs for MSI for the audit period and did not note any items that affected the MISTI.

Due to the location and nature of the project work and certain vendors and individuals who supported the project still residing in Afghanistan, certain audit procedures were performed in conjunction with MSI staff in Afghanistan, as deemed necessary.

Summary of Results

Upon completion of Crowe's procedures, Crowe identified two findings because they met one or more of the following criteria: (1) significant deficiency in internal control, (2) material weakness in internal control, (3) noncompliance with rules, laws, regulations, or the terms and conditions of the contract; and/or (4) questioned costs resulted from an identified instance of noncompliance. Other matters that did not meet the criteria were communicated verbally to MSI.

Crowe also reported on both MSI's compliance with the applicable laws, rules, regulations, and the terms and conditions of the contract and the internal controls over compliance. Two significant deficiencies in internal control (2013-01, 2013-02), and two instances of noncompliance required to be reported in accordance with Government Auditing Standards (GAS) (2013-01, 2013-02) were reported. Where internal control and compliance findings pertained to the same matter, they were consolidated within a single finding. Our findings did not result in any questioned costs to the MISTI program as presented in **TABLE A** contained herein. In addition, Crowe reported any material instances of fraud or abuse related to the task order under audit. No such instances of fraud or abuse were noted during our audit.

In addition to Table A, Crowe also noted that, due to MSI having drawn down more funds than required to meet immediate cash needs, the Government lost a calculated \$46 in interest. This matter is discussed in detail within finding 2013-01. MSI should remit the \$46 of calculated interest to USAID.

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to MSI's financial performance under the contract. Per communications with MSI and USAID, there were no such reviews or assessments conducted that pertained to MSI's implementation of the project and that are direct and material to the SPFS. Crowe, therefore, did not conduct follow-up on corrective action pertaining to any such reports.

Crowe issued an unmodified opinion on the SPFS.

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

TABLE A: Summary of Findings and Questioned Costs

Finding Number	Matter	Questioned Costs	Cumulative Questioned Costs
2013-01	Cash Management Procedures	\$0	\$0
2013-02	Reporting	\$0	\$0
Total Questioned Costs			\$0

As noted in Table A, our findings did not result in questioned costs. However, the calculated \$46 in interest due to MSI having drawn down more funds than required to meet immediate cash needs should be remitted to USAID.

Summary of Management Comments

Management concurred with each audit finding and the corresponding recommendations.

Reference to Appendix

The auditor's reports are supplemented by one appendix. **Appendix A** includes the Views of Responsible Officials, which are management's responses to the findings presented within the report.

Independent Auditor's Report on the Special Purpose Financial Statement

To the President and Management of Management Systems International
200 12th Street South, Suite 1200
Arlington, VA 22202 USA

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

Report on the Special Purpose Financial Statement

We have audited the Special Purpose Financial Statement (the Statement) of Management Systems International (MSI), and related notes to the Statement, for the period March 14 2012, through September 13, 2013, with respect to implementation of the Measuring Impact of Stabilization Initiative (MISTI) funded by Task Order Number AID-306-TO-12-00004 of Contract Number AID-OAA-I-10-00002.

Management's Responsibility for the Special Purpose Financial Statement

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

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

(Continued)

Opinion

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

Basis of Presentation

We draw attention to Note 1 to the Statement, which describes the basis of presentation. The Statement was prepared by MSI in accordance with the requirements specified by the Contract and presents those expenditures as permitted under the terms of Task Order No. AID-306-TO-12-00004 under Contract No. AID-OAA-I-10-00002, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the financial reporting provisions of the Contract referred to above. Our opinion is not modified with respect to this matter.

Restriction on Use

This report is intended for the information of MSI, USAID, and SIGAR. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated April 6, 2015 on our consideration of MSI's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MSI's internal control over financial reporting and compliance.



Crowe Horwath LLP

April 6, 2015
Washington, D.C.

MSI
Special Purpose Financial Statement
Task Order Number AID-306-TO-12-00004
For the Period March 14, 2012 through September 13, 2013

	Budget	Actual	Questioned Costs		Notes
			Ineligible	Unsupported	
Revenues:					
USAID - AID-306-TO-12-00004	\$ 8,755,856	\$ 7,212,834	\$ -	\$ -	4
Total Revenue	<u>8,755,856</u>	<u>7,212,834</u>	<u>-</u>	<u>-</u>	
Costs Incurred:					
Total Labor	3,306,518	2,757,838	-	-	5
Travel	408,602	203,643	-	-	
ODC	2,648,883	1,602,225	-	-	
Subcontract ODC	2,007,748	2,321,573	-	-	
Indirect Costs at Target	384,105	327,555	-	-	
Total Costs Incurred	<u>8,755,856</u>	<u>7,212,834</u>	<u>-</u>	<u>-</u>	
Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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

Management Systems International
Notes to the Special Purpose Financial Statement
For the Period March 14, 2012, through September 13, 2013

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the Statement) includes costs incurred under contract AID-OAA-I-10-00002 task order number AID-306-TO-12-00004 for the MISTI project for the period March 14, 2012 through September 13, 2013. Because the Statement presents only a selected portion of the operations of Management Systems International (MSI) it is not intended to and does not present the financial position, changes in net assets, or cash flows of MSI. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) and is specific to the aforementioned Federal contract AID-306-TO-12-00004. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Costs reported on the Statement are reported on accrual basis and, therefore, are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the FAR, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

MSI's practice with regards to how it determines the exchange rate used in recording and billing expenses paid abroad in foreign currencies is as follow:

The exchange rate used in a given month for recording and billing expenses incurred in a foreign currency in the field is equal to the weighted average exchange rate of the funds converted from US Dollars to Local Currency for the project in the prior month.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which MSI is entitled to receive from USAID for allowable, eligible costs incurred under the contract during the period of performance.

Note 5. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the budget line items presented within the final, USAID-approved contract budget adopted as a component of the modification #2 to the contract dated February 18, 2013.

Note 6. Fund Balance

The fund balance presented on the Statement represents the difference between revenues earned and costs incurred such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the contract and an amount less than \$0 would indicate that costs have been incurred, but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made.

Management Systems International
Notes to the Special Purpose Financial Statement
For the Period March 14, 2012, through September 13, 2013

Note 7. Currency

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

Note 8. Subsequent Events

Management of MSI has performed an analysis of the activities and transactions subsequent to the March 14, 2012, through September 13, 2013, period of performance. Management has performed their analysis through April 6, 2015.

Independent Auditor's Report on Internal Control

To the President and Management of Management Systems International
200 12th Street South, Suite 1200
Arlington, VA 22202 USA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement (the Statement) of Management Systems International (MSI), and related notes to the Statement, for the period March 14, 2012 through September 13, 2013, with respect to implementation of the Measuring Impact of Stabilization Initiative (MISTI) funded by Task Order Number AlaD-306-TO-12-00004 of Contract Number AID-OAA-I-10-00002. We have issued our report thereon dated April 6, 2015.

Internal Control over Financial Reporting

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

In planning and performing our audit of the Statement for the period March 14, 2012, through September 13, 2013, we considered MSI's internal controls to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Statement, but not for the purpose of expressing an opinion on the effectiveness of MSI's internal control. Accordingly, we do not express an opinion on the effectiveness of MSI'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 Statement 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.

(Continued)

Our consideration of internal control was for the limited purpose described in the second 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 material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies (2013-01 and 2013-02).

MSI's Response to Findings

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

Restriction on Use

This report is intended for the information of MSI, USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.



Crowe Horwath LLP

April 6, 2015
Washington, D.C.

Independent Auditor's Report on Compliance

To the President and Management of Management Systems International
200 12th Street South, Suite 1200
Arlington, VA 22202 USA

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Special Purpose Financial Statement (the Statement) of Management Systems International (MSI), and related notes to the Statement, for the period March 14, 2012 through September 13, 2013, with respect to implementation of the Measuring Impact of Stabilization Initiative (MISTI) funded by Task Order Number AID-306-TO-12-00004 of Contract Number AID-OAA-I-10-00002. We have issued our report thereon dated April 6, 2015.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the contract and task order is the responsibility of the management of MSI.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2013-01 and 2013-02 in the accompanying Schedule of Findings and Questioned Costs.

MSI's Response to Findings

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

Purpose of this Report

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

(Continued)

Restriction on Use

This report is intended for the information of MSI, USAID, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe Horwath LLP

Crowe Horwath LLP

April 6, 2015
Washington, D.C.

SECTION I: Schedule of Findings and Questioned Costs

Finding 2013-01 – Cash Management Procedures

Significant Deficiency in Internal Control and Non-Compliance

Condition: During our testing of MSI's cash management procedures for the MISTI, we noted 2 out of 15 expenses tested were not paid within 30 days of invoicing USAID. Specifically, security service payments to subcontractors totaling \$71,035 were invoiced to USAID on May 22, 2012 and November 15, 2012. However, these amounts were not paid to the vendor until June 28, 2012 and December 27, 2012 or 37 and 42 days, respectively after being invoiced to USAID. The table below summarizes our findings.

Nature of Charge	Payment Amount	Days Between Submission and Payment (Less 30 Day Window)	Interest Rate per U.S. Department of Treasury for Applicable Fiscal Year	Calculated Interest
Security Services	\$ 9,523	7	2.10%	\$ 4
Security Services	\$ 61,512	12	2.10%	\$ 42

Utilizing the interest rates identified by the United States Department of the Treasury for cash management purposes, the calculated amount of interest that would have been earned by MSI for drawdowns tied to these expenses is \$46.

Criteria: Pursuant to FAR 52.216-7, reimbursable costs consists of those have been paid by cash, check, or other form of actual payment for items or services purchased directly for the contract and, when the contractor is not delinquent in making payments to subcontractors, costs that have been incurred but not necessarily paid provided that payments will be made in accordance with the terms and conditions of the subcontract and ordinarily within 30 days of submission of the contractor's payment request to the Government.

Specifically, FAR 52.216-7 states:

- (1) For the purpose of reimbursing allowable costs..., the term "costs" includes only—
 - (i) Those recorded costs that, at the time of the request for reimbursement, the Contractor has paid by cash, check, or other form of actual payment for items or services purchased directly for the contract;
 - (ii) When the Contractor is not delinquent in paying costs of contract performance in the ordinary course of business, costs incurred, but not necessarily paid, for—
 - (A) Supplies and services purchased directly for the contract and associated financing payments to subcontractors, provided payments determined due will be made—
 - (1) In accordance with the terms and conditions of a subcontract or invoice; and
 - (2) Ordinarily within 30 days of the submission of the Contractor's payment request to the Government.

Effect: A lack of procedures and effective control over cash management increases the likelihood that errors could be reported in invoices to the USAID including the inclusion of ineligible program costs thus potentially resulting overbillings of the USAID and an inefficient use of Federal funds.

Cause: MSI was not aware of the 30-day requirement for payments to subcontractors and as such did not have a written policy or procedure to comply with the requirement. As a result, program staff were not monitoring for compliance with this requirement for subcontractor payments.

Questioned Costs: There are no questioned costs associated with this finding. The estimated amount to be remitted to USAID is \$46. Due to this amount pertaining to interest earned on advanced funds rather than costs incurred, the amount is not included on the Special Purpose Financial Statement.

(Continued)

SECTION I: Schedule of Findings and Questioned Costs

Recommendation: MSI should implement a policy and procedures to limit the time between billings to the federal government and the disbursement of federal funds. Specific procedures should include, but not be limited to, expending federal funds with 30 days of the drawdown date from the federal agency.

In addition, we recommend that MSI remit the \$46 of calculated interest to USAID or provide documentation supporting why the amount is not due to USAID.

Management Response: MSI agrees with the facts of the finding. MSI agrees to remit \$46 to USAID. MSI agrees to monitor subcontractor payments in order to comply with the requirements to make payment within 30 days of the drawdown date from USAID.

SECTION I: Schedule of Findings and Questioned Costs

Finding 2013-02 – Reporting

Significant Deficiency in Internal Control and Non-Compliance

Condition: Two quarterly financial reports selected for testing (December 2012 and September 2013) were not submitted by the deadline specified in the task order. Specifically, the report for the quarter ended December 31, 2012 was submitted on January 30, 2013 and the report for the quarter ended September 30, 2013 was submitted on October 30, 2013. The table below provides a summary of findings:

Report	Reporting Period	Submission Deadline	Date Submitted to USAID	Days Late
Quarterly Financial	October 1 – December 31, 2012	December 17, 2012	January 30, 2013	44
Quarterly Financial	July 1 – September 30, 2013	September 16, 2013	October 30, 2013	44

In addition, documentation was not provided to support the review and approval of three out of the five reports tested. Among the five reports tested, there was no documentation of review and approval for the two quarterly financial reports noted above and the 2012 annual work plan.

Criteria: Section F.2 - Deliverables/Reports Quarterly Financial Reports of the task order states, "These reports shall be submitted approximately two weeks before the end of the quarter. The precise deadline each quarter for the submittal of the financial reports shall be specified by USAID". Documentation was not provided to indicate that USAID specified a different deadline or timeline for financial reporting.

Effect: USAID may have been unable to fully monitor MSI's financial progress and performance under the contract and fully understand the projects' programmatic impacts

Cause: MSI indicated that they had a verbal arrangement with USAID to issue the financial reports in conjunction with the performance reports 30 days after quarter end.

Questioned Costs: none

Recommendation: We recommend that MSI implement a process to track report deadlines and submissions, and that senior management periodically review report submissions to ensure that reports required under Federal contracts are submitted timely.

Management Response: MSI agrees with the facts of this finding. MSI Senior Project Management will ensure project deliverables and reports are submitted timely on time based on the deadlines stated in our contract with USAID. If changes to the contractual deadlines are agreed upon with the client, MSI will ensure that these changes are noted in writing.

APPENDIX A: Views of Responsible Officials

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To Crowe Horwath LLP
1325 G Street N.W., Suite 500
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To the Office of the Special Inspector General for Afghanistan Reconstruction
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Arlington, Virginia 22202

We appreciate the opportunity to respond to the results of the audit of Management Systems International's (MSI's) contract task order with the United States Agency for International Development (USAID) that funded the Measuring Impact and Stabilization Initiative program (MISTI).

Finding 2013-01 – Cash Management Procedures

MSI agrees with the facts of this finding.

MSI agrees to remit \$46 to USAID. MSI agrees to monitor subcontractor payments in order to comply with the requirement to make payment within 30 days of the drawdown date from USAID.

Finding 2013-02 – Reporting

MSI agrees with the facts of this finding.

MSI Senior Project Management will ensure project deliverables and reporting are submitted on time based on the deadlines stated in our contract with USAID. If changes to the contractual deadlines are agreed upon with the client, MSI will ensure that these changes are noted in writing.

Thank you,

A handwritten signature in blue ink, appearing to read 'Erin Stone', is positioned above the printed name and title.

Erin Stone
Director of Financial Reporting

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

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