

SIGAR

**Special Inspector General for
Afghanistan Reconstruction**

SIGAR 19-30 Financial Audit

USAID's Afghanistan University Support and Workforce Development Program: Audit of Costs Incurred by FHI 360



APRIL
2019

SIGAR

Special Inspector General for Afghanistan Reconstruction

WHAT THE AUDIT REVIEWED

On January 1, 2014, the U.S. Agency for International Development (USAID) awarded FHI 360 a 5-year, \$91.9 million cooperative agreement to implement the Afghanistan University Support and Workforce Development Program. The program's objectives were to increase the skills and employability of Afghan men and women in the public and private sectors. USAID modified the agreement 12 times, extending the period of performance by 9 months to September 30, 2019. The funding amount did not change.

SIGAR's financial audit, performed by Crowe LLP (Crowe), reviewed \$43,283,444 million charged to the cooperative agreement from October 1, 2015, through December 31, 2017. The objectives of the audit were to (1) identify and report on significant deficiencies or material weaknesses in FHI 360's internal controls related to the cooperative agreement; (2) identify and report on instances of material noncompliance with the terms of the cooperative agreement and applicable laws and regulations, including any potential fraud or abuse; (3) determine and report on whether FHI 360 has taken corrective action on prior findings and recommendations; and (4) express an opinion on the fair presentation of FHI 360's Special Purpose Financial Statement (SPFS). See Crowe's report for the precise audit objectives.

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

April 2019

USAID's Afghanistan University Support and Workforce Development Program: Audit of Costs Incurred by FHI 360

SIGAR 19-30-FA

WHAT THE AUDIT FOUND

Crowe identified one material weakness and three significant deficiencies in FHI 360's internal controls, and two instances of noncompliance with the terms and conditions of the cooperative agreement. For example, FHI 360 collaborated with universities and consultants, known as subrecipients, to assist with the program, and allocated some of the USAID funds to these subrecipients. Crowe found that FHI 360 did not always ensure that the subrecipients' incurred costs were allowable and allocable to FHI 360's cooperative agreement with USAID.

Because of the internal control deficiencies and instances of noncompliance, Crowe identified \$656,218 in questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that did not have required prior approval. Crowe did not identify any ineligible costs—costs prohibited by the cooperative agreement, applicable laws, or regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Subrecipient Monitoring	\$0	\$654,868	\$654,868
Noncompetitive Procurements	\$0	\$1,350	\$1,350
Totals	\$0	\$656,218	\$656,218

Crowe identified one prior audit that contained two findings and recommendations that could be material to the SPFS. Crowe concluded that FHI 360 had taken adequate corrective action for the two findings.

Crowe issued a qualified opinion on FHI 360's SPFS. Crowe extrapolated the \$654,868 in questioned costs for subrecipient monitoring to the total population of subrecipient costs that FHI 360 incurred and found the estimated effect of this error was material to the SPFS. Except for this error, Crowe concluded that the SPFS presents fairly, in all material respects, the revenues received and costs incurred for the period audited.

WHAT SIGAR RECOMMENDS

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

- Determine the allowability of and recover, as appropriate, \$656,218 in questioned costs identified in the report.**
- Advise FHI 360 to address the report's four internal control findings.**
- Advise FHI 360 to address the report's two noncompliance findings.**



SIGAR

Office of the Special Inspector General
for Afghanistan Reconstruction

April 3, 2019

The Honorable Mark Green
Administrator, U.S. Agency for International Development

Mr. Peter Natiello
USAID Mission Director for Afghanistan

We contracted with Crowe LLP (Crowe) to audit the costs incurred by FHI 360 under a U.S. Agency for International Development (USAID) cooperative agreement to implement the Afghanistan University Support and Workforce Development Program.¹ The program's objectives were to increase the skills and employability of Afghan men and women in the public and private sectors. Crowe's audit covered \$43,283,444 charged to the agreement from October 1, 2015, to December 31, 2017. Our contract with Crowe required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$656,218 in questioned costs identified in the report.**
- 2. Advise FHI 360 to address the report's four internal control findings.**
- 3. Advise FHI 360 to address the report's two noncompliance finding.**

The results of Crowe's audit are in the attached report. We reviewed Crowe'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 FHI 360's Special Purpose Financial Statement. We also express no opinion on the effectiveness of FHI 360's internal control or compliance with the task order, laws, and regulations. Crowe is responsible for the attached auditor's report and the conclusions expressed in it. However, our review disclosed no instances where Crowe 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-138)

¹ The cooperative agreement number is AID-306-A-13-00009-00.



Family Health International

Special Purpose Financial Statement

University Support and Workforce Development Program

**For the Period October 1, 2015, to December 31, 2017
(With Independent Auditor's Report Thereon)**

Table of Contents

TRANSMITTAL LETTER.....	1
SUMMARY	2
INDEPENDENT AUDITOR’S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT.....	5
NOTES TO THE QUESTIONED COSTS PRESENTED ON THE SPECIAL PURPOSE FINANCIAL STATEMENT	10
INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL.....	11
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE.....	13
SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	15
SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS	20
APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS	21
APPENDIX B - AUDITOR’S REBUTTAL.....	25

**Crowe LLP**

Independent Member Crowe Global

1455 Pennsylvania Avenue, N.W., Suite 700
Washington, D.C. 20004-1008

Tel +1 202 624 5555

Fax +1 202 624 8858

www.crowe.com

TRANSMITTAL LETTER

March 27, 2019

Chairperson and Senior Management
Family Health International (FHI 360)
1825 Connecticut Avenue, NW
Washington, DC 20009

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

We appreciate the opportunity to provide to you our report regarding the procedures that we have completed during the course of our financial audit of Family Health International (FHI 360) cooperative agreement with the United States Agency for International Development (USAID) No. AID-306-A-13-00009-00, University Support and Workforce Development Program, for the period October 1, 2015, through December 31, 2017.

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. Accordingly, we do not express an opinion on the summary and any information preceding our reports.

When preparing our report, we considered comments, feedback, and interpretations of FHI 360, SIGAR, and the USAID, provided both in writing and orally throughout the audit planning, fieldwork, and reporting phases. Management's responses have been incorporated as an appendix to the report.

Thank you for providing us the opportunity to work with you and to conduct the audit of FHI 360's cooperative agreement.

Sincerely,

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

Bert Nuehring, CPA, Partner
Crowe LLP

SUMMARY

Background

The U.S. Agency for International Development (“USAID”) issued a Cooperative Agreement No. AID-306-A-13-00009-00 to Family Health International (“FHI 360”) to implement the Afghanistan University Support and Workforce Development Program. USAID’s objective for this comprehensive, five-year program aims to increase the skills and employability of professionally qualified Afghan men and women in the public and private sectors.

The cooperative agreement was issued for the five-year period beginning on January 1, 2014, and ending December 31, 2018, for a total of \$91,927,769, utilizing a Letter of Credit. USAID issued 12 modifications to the cooperative agreement to change key personnel, provide incremental funding, and extend the period of performance to September 30, 2019. The original amount of the cooperative agreement remained unchanged, \$91,927,769. FHI 360 reported \$43,283,444 in costs incurred from October 1, 2015, through December 31, 2017.

Work Performed

Crowe LLP (“Crowe”) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (“SIGAR”) to conduct a financial audit of FHI 360’s Cooperative Agreement No. AID-306-A-13-00009-00.

Objectives Defined by SIGAR

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

Audit Objective 1 – Special Purpose Financial Statement

Express an opinion on whether the Special Purpose Financial Statement for the cooperative agreement presents fairly, in all material respects, revenues received, costs incurred, items directly procured by the U.S. Government, and balance for the period audited in conformity with the terms of the cooperative agreement 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 FHI 360’s internal controls related to the cooperative agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.

Audit Objective 3 – Compliance

Perform tests to determine whether FHI 360 complied, in all material respects, with the cooperative agreement’s requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the cooperative agreement and applicable laws and regulations, including potential fraud or abuse that may have occurred.

Audit Objective 4 – Corrective Action on Prior Findings and Recommendations

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

Scope

The scope of the audit included the period October 1, 2015, through December 31, 2017. The audit was limited to those matters and procedures pertinent to the cooperative agreement 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;
- Subrecipient Monitoring
- Equipment and Real Property Management;
- Procurement and Suspension and Debarment; and
- Reporting.

Methodology

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

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

With regard to Audit Objective 2 regarding internal control, Crowe requested, and the auditee provided, copies of its policies and procedures to provide Crowe with an understanding of the system of internal control established by FHI 360. The system of internal control is intended to provide reasonable assurance of achieving reliable financial and performance reporting and compliance with applicable laws and regulations. Crowe corroborated internal controls identified by the auditee and conducted testing of select key controls to understand if they were implemented as designed.

Audit Objective 3 requires that tests be performed to obtain an understanding of the auditee’s compliance with requirements applicable to the cooperative agreement. Crowe identified – through review and evaluation of the cooperative agreement executed by and between FHI 360 and USAID – the criteria against which to test the SPFS and supporting financial records and documentation. Using sampling techniques, Crowe selected expenditures, reimbursement requests submitted by FHI 360 to the Government, procurements, reports, and government property items for testing. Supporting documentation was provided by the auditee and subsequently evaluated to assess FHI 360’s compliance. Testing of indirect costs was limited to 1) determining whether indirect costs were charged to the U.S. Government in accordance with the rate limitations established within the cooperative agreement; 2) testing whether indirect costs charged to the cooperative agreement were calculated in accordance with the provisions of the Negotiated Indirect Cost Rate Agreement (“NICRA”); and 3) determining whether FHI 360 adjusted any charges based on the provisional indirect cost rates incorporated within the NICRA following revision or finalization of the provisional rates.

Regarding Audit Objective 4, Crowe inquired of SIGAR, FHI 360, and USAID regarding prior audits and reviews to obtain an understanding of the nature of audit reports and other assessments that were completed and that required corrective action. In addition, Crowe conducted an independent search for reports that might contain findings or recommendations for follow up. For findings determined to have a potential material effect on the Special Purpose Financial Statements, Crowe performed follow-up audit procedures which may have included, but were not limited to, testing specific transaction groups, reviewing modifications to internal procedures, and evaluating the status of the implementation of corrective actions regarding the finding or findings identified. The results of these procedures and a determination regarding the inclusion of the findings as part of this audit report are noted in **Section II**.

Summary of Results

Upon completion of Crowe's procedures, Crowe issued a qualified opinion on the SPFS. The qualified opinion was as a result of questioned costs identified within Finding 2018-01 that when extrapolated against the population of incurred costs for subrecipient activities, have a material effect on the SPFS.

While Crowe issued a qualified opinion for the SPFS as a whole, Crowe reported separately on both FHI 360's compliance with the applicable laws, rules, regulations, and the terms and conditions of the cooperative agreement and the internal controls over financial reporting. With regard to matters of internal control and compliance with laws, rules, regulations, and the terms of the cooperative agreement, Crowe identified three significant deficiencies in internal control reported as Findings 2018-02, 2018-03, and 2018-04. In addition, one material weakness in internal control reported as Finding 2018-01. Crowe also reported two instances of noncompliance as Findings 2018-01 and 2018-02 in **Section I**. A summary listing of the Findings and Questioned Costs is in the Table below. The summary presents an overview of the audit results 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	Classification	Questioned Costs	Cumulative Questioned Costs
2018-01	Subrecipient Monitoring	Material Weakness and non-compliance	\$654,868	\$654,868
2018-02	Non-Competitive Procurements	Significant Deficiency and non-compliance	\$1,350	\$656,218
2018-03	Internal Controls Over Journal Entries	Significant Deficiency	\$0	\$0
2018-04	Lack of Support for Draw downs	Significant Deficiency	\$0	\$0
Total				\$656,218

Crowe also requested copies of prior audits, reviews, and evaluations pertinent to FHI 360's financial and compliance performance under the cooperative agreement. Based on Crowe's communications with FHI 360, USAID, and SIGAR, one report was identified. Crowe conducted procedures to determine if matters previously resulting in findings related to FHI 360's administration of government cooperative agreements were within the scope of this audit. Two findings were identified requiring follow-up audit procedures. Crowe concluded that FHI 360 took adequate corrective action with respect to matters that could have a material effect on the Special Purpose Financial Statement or other financial data significant to the audit objectives. The specific results of the follow-up procedures and the status of the prior finding are noted within **Section II**.

Summary of Management Comments

Management concurred with finding 2018-04 and partially concurred with finding 2018-03 noting a disagreement with the categorization of the finding as a significant deficiency in internal control. Management disagreed with two findings, 2018-01 and 2018-02. FHI 360's Management response is included in its entirety at **Appendix A**.

References to Appendices

The auditor's reports are supplemented by two appendices, **Appendix A**, containing the Views of Responsible Officials, and **Appendix B**, which contains the Auditor's Rebuttal.

INDEPENDENT AUDITOR'S REPORT ON THE SPECIAL PURPOSE FINANCIAL STATEMENT

Chairperson and Senior Management
Family Health International (FHI 360)
1825 Connecticut Avenue, NW
Washington, DC 20009

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 **Family Health International (FHI 360)**, and related notes to the Statement, for the period October 01, 2015 – December 31, 2017, with respect to Cooperative Agreement No. AID-306-A-13-00009-00.

Management's Responsibility for the Special Purpose Financial Statement

Management is responsible for the preparation and fair presentation of the Statement in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") in Cooperative Agreement No. AID-306-A-13-00009-00 ("the Agreement"). Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

SIGAR requires that the Statement present costs incurred under the contract that are allowable and reimbursable in accordance with the contract's terms and conditions. During the course of the audit, we identified known questioned costs of \$656,218 as a result of FHI 360's failure to fully comply with the contract's requirements. We estimated the total effect of the noncompliance from Finding 2018-01 on the Statement by extrapolating the impact of the identified errors on the population of subrecipient costs incurred as reported on the Statement. Based on the extrapolation, the total effect of the noncompliance is presumed to be material.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the Statement referred to above presents fairly, in all material respects, the revenues earned, 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 and on the basis of presentation and accounting described in Notes 1 and 2.

Basis of Presentation and Accounting

We draw attention to Notes 1 and 2 to the Statement, which describes the basis of presentation and accounting. The Statement was prepared by FHI 360 in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction and presents those expenditures as permitted under the terms of Agreement No. AID-306-A-13-00009-00, 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 Agreement referred to above. Our opinion is not modified with respect to these matters.

Restriction on Use

This report is intended for the information of FHI 360, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued reports dated March 4, 2019, on our consideration of FHI 360's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, the agreement, 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 FHI 360's internal control over financial reporting and compliance.

Crowe LLP

Crowe LLP

March 4, 2019
Washington, D.C.

Family Health International (FHI 360)
Special Purpose Financial Statement
AID-306-A-13-00009-00
For the Period October 01, 2015, to December 31, 2017

			Questioned Costs		Notes
	Budget	Actual	Ineligible	Unsupported	
Revenues					
Cooperative Agreement No. AID-306-A-13-00009-00	\$ 91,927,769	\$ 43,280,662			
Total Revenue	\$ 91,927,769	\$ 43,280,662			4
Costs Incurred					
Personnel	\$ 13,194,379	\$ 6,952,716			6
Fringe Benefits	\$ 2,425,124	\$ 1,862,327			
Travel	\$ 1,289,214	\$ 882,606			
Equipment	\$ 165,321	\$ 118,601			
Materials and Supplies	\$ -	\$ -			
Contractual Services	\$ 467,835	\$ 216,812			
Subawards	\$ 52,906,441	\$ 23,042,665		\$ 654,868	A
Participant Expenses	\$ 4,296,149	\$ 2,154,667			
Other Direct Costs	\$ 6,038,314	\$ 3,237,756		\$ 1,350	B
Indirect Costs	\$ 11,144,992	\$ 4,815,294			
Total Costs Incurred	\$ 91,927,769	\$ 43,283,444			
	\$ -	\$ (2,782)		\$ 656,218	7

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

Family Health International (FHI 360)
Notes to the Special Purpose Financial Statement
For the Period October 01, 2015, through December 31, 2017

Note 1. Basis of Presentation

The accompanying Special Purpose Financial Statement (the "Statement") includes costs incurred under Award No. AID-306-A-13-00009-00 for the Afghanistan University Support and Workforce Development Program (USWDP) for the period October 1, 2015, through December 31, 2017. Because the Statement presents only a selected portion of the operations of the FHI 360, it is not intended to and does not present the financial position, changes in net assets, or cash flows of FHI 360. The information in this Statement is presented in accordance with the requirements specified by the Office of the Special Inspector General for Afghanistan Reconstruction ("SIGAR") and is specific to the aforementioned Federal Cooperative Agreement. Therefore, some amounts presented in this Statement may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2. Basis of Accounting

Expenditures reported on the Statement are reported on an accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 2 CFR-200, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Foreign Currency Conversion Method

For purposes of preparing the Statement, conversions from local currency to United States dollars were required. To convert local currency transactions into USD, FHI 360 utilizes daily Oanda foreign exchange rates incorporated into its accounting system. Oanda exchange rates are widely used by corporations, tax authorities, auditing firms, and financial institutions. FHI 360 also makes adjustments to the USD equivalents of field-office local currency transactions based upon the actual exchange rates received from our local banks.

Note 4. Revenues

Revenues on the Statement represent the amount of funds to which FHI 360 is entitled to receive from USAID for allowable, eligible costs incurred under the cooperative agreement (this is a cooperative agreement) during the period of performance.

Note 5. Revenue Recognition

Revenue is recorded upon incurring an expense, or delivery of the service, assuming all other revenue recognition criteria have been met.

Note 6. Costs Incurred by Budget Category

The budget categories presented and associated amounts reflect the line items contained within the final, approved agreement budget adopted as a component of the Modification 9 to the agreement signed by FHI 360 on August 30, 2016.

Note 7. Balance

The balance presented on the Statement represents the difference between revenues earned and costs incurred, such that an amount greater than \$0 would reflect that revenues have been earned that exceed the costs incurred or charged to the agreement, and an amount less than \$0 would indicate that costs have been incurred but are pending additional evaluation before a final determination of allowability and amount of revenue earned may be made. We calculated a difference of \$2,782 between total costs and revenue. This very small difference we believe is due to a minor reporting inconsistency and an indirect rate adjustment. The balance will be zero at project end when all indirect rates are final and recorded.

Family Health International (FHI 360)
Notes to the Special Purpose Financial Statement
For the Period October 01, 2015, through December 31, 2017

Note 8. Currency

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

Note 9. Subrecipients

With the finalization of USWDP agreement, FHI360 had received USAID approval for four major sub-partners (University of Massachusetts, Purdue University, Altai Consulting, and Afghan Holding Group (AHG)). As the program implementation expanded in Afghanistan, USAID approved additional sub-awards to US-based universities to assist with academic programs' improvement in Afghan universities.

Note 10. Program Status

USWDP remains active. The period of performance for the agreement is scheduled to conclude on September 30, 2019 as noted in Modification No. 12 signed by FHI 360 on January 16, 2018. No adjustments to amounts currently reported on the Statement resulted from this modification.

Note 11. Reconciliation to Invoiced Amounts

FHI 360 reports its costs to USAID Afghanistan via the quarterly SF-425, not via monthly invoices. The Statement provides the expenses incurred during the audit period only. This amount is not reflected in the SF-425 because the SF-425 reports cumulative spending from the start of the cooperative agreement period.

Note 12. Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to October 1, 2015, through December 31, 2017, period covered by the Statement. Management has performed their analysis through March 4, 2019.

**NOTES TO THE QUESTIONED COSTS PRESENTED
ON THE SPECIAL PURPOSE FINANCIAL STATEMENT**

Note A. Finding 2018-01: Lack of Subrecipient Monitoring

Finding 2018-01 identified an issue where FHI 360 did not perform sufficient monitoring for certain costs incurred by subrecipients. FHI 360 neither obtained sufficient details about the subrecipient costs incurred nor documented other procedures providing assurance that subrecipients systems prevented or detected unallowed costs from being charged to the agreement. Questioned Costs are \$654,868.

Note B. Finding 2018-02: Non-Competitive Procurements

Finding 2018-02 identified one procurement where a cost price analysis was not performed when utilizing a non-competitive procurement. Questioned Costs are \$1,350.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

Chairperson and Senior Management
Family Health International (FHI 360)
1825 Connecticut Avenue, NW
Washington, DC 20009

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 Family Health International (FHI 360), and related notes to the Statement, for the period October 1, 2015 through December 31, 2017, with respect to USAID’s Cooperative Agreement No. AID-306-A-13-00009-00. We have issued our report thereon dated March 4, 2019, within which we have qualified our opinion.

Internal Control over Financial Reporting

FHI 360’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 cooperative agreement; 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 October 1, 2015, through December 31, 2017, we considered FHI 360’s internal controls to determine the 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 FHI 360’s internal control. Accordingly, we do not express an opinion on the effectiveness of FHI 360’s internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies; and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weakness that is reported as Finding 2018-01.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We noted certain matters that were considered significant deficiencies that we reported as Findings 2018-02, 2018-03, and 2018-04.

Family Health International's Response to the Findings

FHI 360's response to the findings was not subject to the auditing procedures applied in the audit of the special purpose financial statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of FHI 360, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe LLP

Crowe LLP

March 4, 2019
Washington, D.C.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

Chairperson and Senior Management
Family Health International (FHI 360)
1825 Connecticut Avenue, NW
Washington, DC 20009

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 Family Health International (FHI 360), and related notes to the Statement, for the period October 01, 2015 through December 31, 2017, with respect to USAID's Cooperative Agreement No. AID-306-A-13-00009-00. We have issued our report thereon dated March 4, 2019, within which we have qualified our opinion.

Management's Responsibility for Compliance

Compliance with Federal rules, laws, regulations, and the terms and conditions applicable to the cooperative agreement is the responsibility of the management of FHI 360.

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 cooperative 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in Findings 2018-01 and 2018-02 in the accompanying Schedule of Findings and Questioned Costs.

Family Health International's Response to the Finding

FHI 360's response to the finding was not subjected to the auditing procedures applied in the audit of the special purpose financial statement, and accordingly, we express no opinion on it.

Purpose of this Report

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

Restriction on Use

This report is intended for the information of FHI 360, the United States Agency for International Development, and the Office of the Special Inspector General for Afghanistan Reconstruction. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public.

Crowe LLP

Crowe LLP

March 4, 2019
Washington, D.C.

SECTION I - SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Finding 2018-01: Subrecipient Monitoring Lacked Detailed Review of Non-Personnel Costs

Material Weakness and Non-Compliance

Condition: Although FHI 360 performed subrecipient monitoring activities, their procedures did not adequately ensure certain costs were allowable and allocable to the program. FHI 360's subrecipient monitoring procedures included reviews of annual audit reports, analysis of budget to actual activity tracking, and a detailed review of personnel services costs (e.g. salaries and fringe benefits). However, FHI 360's review procedures did not include a detailed review of non-personnel costs (e.g., consulting services, fuel, and supplies), to determine whether or not these costs were allowable and allocable to the program.

Processing Date	USD Amount	Description of Questioned Costs	Questioned Costs
June 19, 2017	\$172,670	Consulting: Executive Education	\$133,416
January 25, 2017	\$178,855	Other Direct Costs	\$64,064
June 24, 2017	\$194,527	Consultants/Professional Fees, Supplies, Other Direct Costs	\$39,829
December 13, 2016	\$216,337	Subcontracts, Consultants, Supplies, Operational Services	\$204,062
January 12, 2018	\$1,081,868	Subcontracts, Consultants, Supplies, Operational Services	\$213,497
Total	\$1,844,257		\$654,868

Criteria:¹

2 CFR 200.331 (a) (2), Requirements for pass-through entities

"All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award."

2 CFR 200.331 (d), Requirements for pass-through entities, states, pass-through entities must:

"Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved."

2 CFR 200.303 (c), Internal Controls, states, the non-Federal entity must:

"Evaluate and monitor the non-federal entity's compliance with statutes, regulations and the terms and conditions of the Federal awards."

2 CFR 200.101 (b)(1), Applicability:

"...The terms and conditions of Federal awards flow down to subawards to subrecipients unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise. This means that non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award."

As such, 2 CFR 200.403 Factors affecting allowability of costs, 200.404 Reasonable costs, and 200.405 Allocable costs, apply to both recipients and subrecipients of a Federal award.

Questioned Costs: \$654,868

¹ Modification 7, effective June 27, 2016, changed the regulations governing the cooperative agreement from 22 CFR 226 to the current 2 CFR 200. As this finding is post-June 27, 2016, the applicable criteria is 2 CFR 200.

Effect: FHI 360 did not fully comply with the requirements of the cooperative agreement and applicable federal regulations. In addition, certain categories of expenditures reimbursed by the Federal Government to FHI 360 may not have been for allowable or allocable costs to the cooperative agreement.

Cause: FHI 360 did not have a monitoring policy in place requiring a detailed review of non-personnel services expenditures at the subrecipient level for unallowable costs.

Recommendation: Crowe recommends that FHI 360:

- A) Repay the federal government \$654,868 in federal questioned costs, or perform monitoring procedures to substantiate subrecipient non-personnel costs as allowable and allocable to the program; and
- B) Develop monitoring procedures that included a detailed review of subrecipient non-personnel costs and the retention of documentation noting the expenditures reviewed.

Finding 2018-02: One Non-Competitive Procurement Lacked Cost-Price Analyses

Significant Deficiency and Non-Compliance

Condition: FHI 360 was unable to demonstrate that it had conducted required cost-price analyses to establish the reasonableness of the costs at the time of one procurement. Crowe selected a sample of 40 items to test FHI 360's procurement activity and noted one instance where FHI 360 utilized a single vendor without adhering to competitive procurement requirements. This item related to FHI 360's implementation of the USWDP program, which requires the administration of the English as a Foreign Language (TOEFL) test to determine an individual's proficiency in English. FHI 360's documentation to support the reasonableness of the costs was limited to an email stating that only one firm could provide the TOEFL test and a screen capture of the pricing page from vendor. The email does not demonstrate that a cost-price analysis was performed at the time of procurement, as required for competitive procurements to establish the reasonableness of the costs.

The table below notes the specific purchase orders and the costs associated with each:

Purchase Order #	Date of Purchase Order	Date of Sole Source Justification Form (P8)	Value of Procurement
PO16000511	November 6, 2015	November 2, 2018	\$1,350
Total			\$1,350

Criteria:

22 CFR 226.45 Cost and price analysis

"Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action. Price analysis may be accomplished in various ways, including the comparison of price quotations submitted, market prices and similar indicia, together with discounts. Cost analysis is the review and evaluation of each element of cost to determine reasonableness, allocability and allowability."

Section 2.2 Sole Source Procurement of the USWDP Afghanistan University Support and Workforce Development Program Procurement Manual:

"FHI 360 recognizes only the following exceptions to full and open competition in procurement (where the Source has been determined in advance of the procurement as the only one available to satisfy the requirement.) Sole Source Selection form (Attached P8) must be developed in advance of every procurement and approved/signed either by the COP or the DFA, or sent to the Home Office Program Manager..."

Questioned Costs: \$1,350

Effect: The Federal Government may have reimbursed FHI 360 for costs related to these two procurements where the most advantageous price may not have been obtained.

Cause: FHI 360 employees did not follow its own internally developed policy to ensure compliance with the 22 CFR 226.45.

Recommendation: Crowe recommends that FHI 360:

- A) Reimburse the Federal Government \$1,350 or provide supporting documentation of a cost-price analysis; and
- B) Provide specific training to employees regarding the application of established procurement policies.

Finding 2018-03: Delayed Journal Entry Approval

Significant Deficiency

Condition: From a sample size of 45 expenditure transactions tested for allowability under the cooperative agreement, one item, a journal entry, was notable. FHI processed the journal entry to correct previously recorded expenditures, but the journal entry was not approved until two years after it was originally recorded.

For this journal entry, the supporting documentation noted the origination date of April 12, 2016. However, the journal entry was not approved until April 30, 2018. In addition, when Crowe reviewed the journal entry supporting documents, the authorization signature was not an original signature but rather an image placed on the support provided to Crowe as an Adobe Acrobat (.pdf) document.

Criteria: FHI 360's University Support and Workforce Development Program – Finance Manual 4.9 Journal Entries states, "Journal entries while used are used primarily for adjusting entries (example: incorrect GL charged or the incorrect project number used and needs to be corrected). All adjusting entries will need to be supported by an approved voucher and adequate supporting documentation and approved by the approved signatories."

Questioned Costs: None.

Effect: By not reviewing the document at the time of entry to the accounting system, FHI 360 cannot ensure the information was properly coded and authorized prior to entry into the accounting records.

Cause: FHI 360 employees did not follow established procedures for reviewing journal entries.

Recommendation: Crowe recommends that FHI 360 provide specific training to employees regarding the processing and timely approval of journal entries in accordance with FHI 360 policy.

Finding 2018-04: Lack of Support for Draw Downs

Significant Deficiency

Condition: During the audit period, FHI 360 submitted 34 draw-down requests under a letter of credit from USAID. For seven draw downs, Crowe requested documentation (e.g., calculations, reports, etc.) to support these draw down requests. FHI could not produce documentation to demonstrate that they reviewed and approved each draw down for accuracy and that the requests were in line with their immediate cash requirements.

Criteria:

22 CFR 226.22 (b) (2) Payment

"Cash advances to a recipient organization shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project."

2 CFR 200.305 (b) (1) incorporated by Modification 7, effective June 27, 2016

"... Advance payments to a non-Federal entity must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the non-Federal entity in carrying out the purpose of the approved program or project...."

FHI Billing policy, effective February 13, 2017

5. For awards that allow cash draw downs under letters of credit, FHI 360 will:

- 5.1 Request draw downs using standard forms in accordance with the terms and the award;
- 5.2 Conduct a review of all draw down requests prior to submission to ensure accuracy and completeness;
- 5.3 Maintain adequate documentation to support the funds requested, such as project budgets and historical spending; and
- 5.4 Monitor actual costs incurred against funds drawn down to minimize potential liabilities."

Questioned Costs: None

Effect: FHI 360's draw-down requests to USAID may have been inaccurate and could result in USAID's providing funds in excess of FHI 360's actual, immediate cash requirement associated with their program.

Cause: FHI 360 employees did not retain documentation to support the draw downs, including supporting documentation and proof of review and approval in accordance with established policies.

Recommendation: Crowe recommends that FHI 360 provide training on the requirements of the billing policy noted and ensure documentation supporting draw downs are retained in accordance with the established policies.

SECTION II - SUMMARY SCHEDULE OF PRIOR AUDIT, REVIEW, AND ASSESSMENT FINDINGS

Crowe identified one prior audit report issue by the USAID titled, Audit of Costs Incurred by Family Health International 360 (FHI 360) Under the Afghanistan University Support and Workforce Development Program, Cooperative Agreement Numbered AID-306-A-13-00009-00, For the Period from January 1, 2014, to September 30, 2015. Findings with a direct and material effect to this audit are noted below.

Finding Number: 1 – Unauthorized Personal International Travel

During the audit, it was determined that FHI 360 charged personal airfare for one of its employees, from Las Vegas to Washington D.C., to the project. This finding had an associated questioned cost of \$200, which FHI 360 adjusted amounts invoiced to the federal government to account for the questioned cost. Crowe reviewed the invoice, which included the \$200 questioned cost adjustment. In addition, it was recommended that FHI 360 establish proper internal controls for review and approval of travel claims. Crowe, as part of internal control and expenditure testing, reviewed FHI 360's travel policy, and tested international travel items without exception. Accordingly, the prior finding is not repeated.

Finding Number: 2 – Subrecipient Monitoring

During the audit, it was determined that \$935,104 in costs was identified as ineligible due to non-compliance in subrecipient monitoring. FHI 360 did not ensure that its foreign sub-recipient's, Afghanistan Holding Group (AHG), audit report complied with applicable audit requirements under ADS 591 OIG guidelines for Audits. FHI 360 disagreed with this finding. USAID issued its management decision on February 6, 2018, and upheld \$6,098 in questioned costs due to lack of supporting documentation. Crowe reviewed correspondence and the final determination between USAID and FHI 360, and performed testing of the subrecipient monitoring process, noting no issues related to this audit finding. However, Crowe has reported Finding 2018-01 on FHI 360's monitoring of subrecipient non-personnel services costs charged to this cooperative agreement. The prior finding is not repeated.

APPENDIX A - VIEWS OF RESPONSIBLE OFFICIALS

Included below are FHI 360's management response to the audit findings:

Finding 2018-01: Subrecipient Monitoring Lacked Detailed Review of Non-Personnel Costs

Management Response:

FHI 360 respectfully disagrees with this finding, the questioned costs, and resultant qualified opinion of the Special Purpose Financial Statement.

As detailed in the table below, FHI 360's policies and practices fully comply with all 2 CFR 200 components cited by the auditors. Neither the Uniform Guidance nor the cooperative agreement terms require review of detailed supporting documents for non-personnel expenditures incurred by U.S. subrecipients. Thus, there is no basis to assert that any of these subrecipient costs are unallowable or unallocable, nor for FHI 360 to develop additional monitoring procedures.

In addition, FHI 360 conducts a pre-award assessment for all subrecipients using a Pre-Award Assessment Tool (PAT). The PAT measures the organization's ability to manage federal funds. For the highlighted subrecipients, the PAT process included examination of the Single Audit, indirect rates, and other funds managed by the subrecipient. The project performed a PAT on each of the highlighted subrecipients. FHI 360 include special award terms and conditions in the sub-agreements based on the risk level per the results of the PAT.

FHI 360 also uses the results of the PAT to establish invoice requirements for the subrecipient. For example, non-US subrecipients without an audit must provide full supporting documentation such as timesheets and receipts for each invoice. US-based subrecipients with a Single Audit who receive a low risk score are required to submit a labor summary and detailed transaction list. Additional documentation is not required given that the Single Audit and PAT demonstrate the subrecipients have adequate internal controls and audit procedures in place.

The subrecipient expenses from the auditor's sample were from four US subrecipients: University of Massachusetts (UMass), Johns Hopkins University, Ball State University and University of Notre Dame. All four highlighted subrecipients were rated low risk per PATs, and therefore, no financial special award conditions were required.

The following table demonstrates how FHI 360 policy and practice adhere to the USG regulations cited by the auditors.

Item	Federal Guidance	FHI 360/USWDP Project Procedures
1	2 CFR 200.331 (a)(2), Requirements for pass-through entities. "All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations and the terms and conditions of the Federal award."	FHI 360 has flowed down all USAID required terms, conditions and provisions to its subawards.
2	2 CFR 200.331 (d) "Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:	<u>Monitoring</u> The USWDP project follows written FHI 360 requirements on monitoring of subaward technical, financial and contractual compliance. Diverse methods such as document review, site visits, audits, and training are performed for each subrecipient as required by USG regulation and the results of the pre-award risk assessment (see above). FHI 360's documented monitoring includes:

Item	Federal Guidance	FHI 360/USWDP Project Procedures
	<p>1. Reviewing financial and performance reports required by the pass-through entity.</p> <p>2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.</p> <p>3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by §200.521 Management decision.”</p>	<p><u>Review of financial reports</u> Each of the highlighted subrecipients provide a monthly or quarterly financial report that includes the invoice, labor summary and transaction list. The transaction list is a detailed breakdown of non-labor costs including the dates, descriptions and amounts for each transaction. Technical monitors review and authorize the invoices by comparing expenses to the approved workplan and results of technical monitoring to ensure level of effort and expenses are necessary and reasonable for technical objectives. Finance staff review the invoice against the approved budget and obligation, and reasonability of expenditure level against performance achieved. Evidence of this technical and financial review for all subaward samples has been provided to the auditors.</p> <p><u>Review of performance reports</u> The project requires performance reports or inputs from each highlighted subrecipient. These are reviewed and approved by technical monitors assigned to each subrecipient.</p> <p>University of Massachusetts staff are fully integrated with the FHI 360 team in Kabul. All in-country activities are supervised and monitored by the FHI 360 Chief of Party, Director of Finance and the Operations Director. All other university subrecipients for the Afghan-US university partnership component deliver their interventions in the presence of USWDP staff members.</p> <p><u>Follow-up on any deficiencies identified during monitoring</u> Finance staff seek backup or clarification on specific invoices as needed prior to payment. Technical officers review the reports and check them against the deliverable schedule of the contract. If necessary, technical feedback is provided and the reports are revised.</p> <p><u>Issue management decision on audit findings</u> All subrecipients highlighted in the observation are US universities subject to the Single Audit required by 2 CFR 200.501. FHI 360 Corporate Finance reviews all Single Audits for all US subrecipients to identify any deficiencies or weaknesses that could possibly impact FHI 360 projects. If these are identified, Corporate Finance works with the project to obtain more information, develop a corrective action plan, issue a Management Decision Letter and follow up on its implementation. None of the</p>

Item	Federal Guidance	FHI 360/USWDP Project Procedures
		subrecipients highlighted by Crowe had any audit findings that relate to the USWDP project since its inception.
3	2 CFR 200.303 (c), Internal Controls, the non-Federal entity must: “Evaluate and monitor the non-federal entity’s compliance with statutes, regulations and the terms and conditions of the Federal awards.”	Financial and technical performance monitoring is described in Item #2. The project performs administrative and compliance monitoring to ensure compliance, including: <ul style="list-style-type: none"> • Deliverable management • Coordination of vetting for subrecipient vendors receiving more than \$25,000/ year • Compliance with special award conditions. • Review of submitted cost share and training on topics such as fraud prevention • Required approvals for key personnel, equipment purchases, second-tier subs, etc. • Review of Single Audits
4	2 CFR 200.101 (b)(1), Applicability “...The terms and conditions of Federal awards flow down to subawards to subrecipients unless a particular section of this part or the terms and conditions of the Federal award specifically indicate otherwise. This means that non-Federal entities must comply with requirements in this part regardless of whether the non-Federal entity is a recipient or subrecipient of a Federal award.”	As stated in Item 1, FHI 360 ensures all required USAID terms, conditions and provisions are flowed down to subrecipients.

Finding 2018-02: One Non-Competitive Procurement Lacked Cost-Price Analyses

Management Response:

FHI 360 respectfully disagrees with this finding. This transaction took place at FHI 360 Headquarters (HQ) in the US in accordance with the FHI 360 HQ procurement policy, not the in-country USWDP manual cited by the auditors. A cost price analysis or competition is not applicable to this purchase due to the fact that the test is only offered by one source, ETS. Since no other company provides this test, there is no other source to compare the reasonableness of these costs. Therefore, it is simply not possible for FHI 360 (and thus the federal government) to have competed this purchase or obtain more advantageous pricing. FHI 360 fully complied with its internal procurement policies.

Finding 2018-03: Delayed Journal Entry Approval

Management Response:

The charge in question is related to a \$0.68 cent charge for VAT tax on office utilities in the FHI 360 Regional Office in Bangkok. Based on the FHI 360’s Shared Management and Administrative Costs procedure, a small portion of regional office utilities costs are allocated to USWDP based on the LOE provided to the project by an employee in that office. The voucher for the utilities payment was reviewed, approved and signed in April 2016.

FHI 360 acknowledges that the Journal Entry (JE) voucher to allocate the utilities costs across projects was not signed timely due to an oversight. The Regional Office identified this oversight during a review two years later and provided review and authorization of the JE document at that time.

Given the singular and isolated nature of this occurrence, the immaterial value, and the fact that the expenditure itself was approved at the time of payment, FHI 360 respectfully disagrees that this is a significant deficiency. FHI 360 does agree to provide a refresher training to the regional finance staff on processing and timely approval of journal entries.

Finding 2018-04: Lack of Support for Draw Downs

Management Response:

FHI 360 operates on a Letter of Credit (LOC) under this award and utilizes drawdowns for reimbursement of actual allowable incurred costs but not for cash advances. As such, the amounts of the drawdown do not result in excess funds on hand.

FHI 360 acknowledges the auditor's observation and agrees with the recommendation. Effective December 2018, FHI 360 maintains the Project Status Reports (PSR) generated from FHI 360's financial system to support the amount of the drawdowns reflecting all recorded allowable incurred costs under the project. FHI 360 will ensure that review and approval are performed and documented going forward.

APPENDIX B - AUDITOR'S REBUTTAL

Crowe LLP ("Crowe" or "we" or "us") has reviewed FHI 360, Inc.'s ("FHI's" or "the Auditee") management response to the audit findings. In consideration of the management views, Crowe has included the following rebuttal to certain matters presented by the Auditee. A rebuttal has been included in those instances where management disagreed with the facts presented within the condition or otherwise did not concur with Crowe's recommendation. FHI disagreed with Findings 2018-01 and 2018-02, and partially with Finding 2018-03. Crowe's rebuttal to those findings follows.

Finding 2018-01: Subrecipient Monitoring Lacked Detailed Review of Non-Personnel Costs

Management disagreed with Crowe's conclusion that FHI's monitoring system did not provide for adequate monitoring of non-personnel costs. In their response, FHI cites their procedures under which FHI conducts its monitoring activity. FHI's current policies do not adequately provide for the determination of allowable and allocable costs of its subrecipients' non-personnel service expenditures. As explained in the criteria section of the finding, FHI is required to ensure that the funds are appropriately spent. Without a detailed review of non-personnel services supporting documentation, i.e. invoices, contracts, billing documents, FHI cannot assure the allowability of these costs. Therefore, finding and questioned cost will remain unchanged.

Finding 2018-02: One Non-Competitive Procurements Lacked Cost-Price Analyses

Management disagreed with Crowe's conclusion that the procurement noted required a cost price analysis and was not compliant with FHI 360's University Support and Workforce Development Program (USWDP) procurement manual. During the audit, Crowe requested USWDP program procurement policies and procedures, and in response, FHI provided their USDWP field manual as noted in the finding. In the FHI response to this finding, they noted the USWDP manual provided was not applicable because FHI U.S. Headquarters (HQ) processed the procurement, not USWDP. FHI states that HQ follows a separate procurement manual, whose procedures are different from the criteria listed in the finding and thus made the finding invalid. FHI did not provide the HQ procurement manual to validate that the criteria cited in the finding was invalid or different from the USWDP manual. Additionally, FHI did not provide additional support to show either that a cost price analysis was performed or provide evidence to justify why such was not performed in accordance with 22 CFR 226.45. Therefore, the finding and questioned cost will remain.

Finding 2018-03: Delayed Journal Entry Approval

Management agreed with the finding. However, FHI questioned the reasoning for the classification of the finding as a significant deficiency. A significant deficiency is defined as 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. The facts of the finding, which included the use of an imaged signature placed on the pdf supporting documentation over one year after the initial processing of the document, meet this definition. Therefore, this finding's classification as a significant deficiency will remain.

SIGAR's Mission

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

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

Obtaining Copies of SIGAR Reports and Testimonies

To obtain copies of SIGAR documents at no cost, go to SIGAR's Web site (www.sigar.mil). SIGAR posts all publically released reports, testimonies, and correspondence on its Web site.

To Report Fraud, Waste, and Abuse in Afghanistan Reconstruction Programs

To help prevent fraud, waste, and abuse by reporting allegations of fraud, waste, abuse, mismanagement, and reprisal, contact SIGAR's hotline:

- Web: www.sigar.mil/fraud
- Email: sigar.pentagon.inv.mbx.hotline@mail.mil
- Phone Afghanistan: +93 (0) 700-10-7300
- Phone DSN Afghanistan: 318-237-3912 ext. 7303
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
- U.S. fax: +1-703-601-4065

Public Affairs

Public Affairs Officer

- Phone: 703-545-5974
- Email: sigar.pentagon.ccr.mbx.public-affairs@mail.mil
- Mail: SIGAR Public Affairs
2530 Crystal Drive
Arlington, VA 22202