

# SIGAR

**Special Inspector General for  
Afghanistan Reconstruction**

**SIGAR 23-31 Financial Audit**

## USAID's Advancing Higher Education for Afghanistan Development Program: Audit of Costs Incurred by FHI 360



**AUGUST  
2023**

# SIGAR

## Special Inspector General for Afghanistan Reconstruction

### WHAT THE AUDIT REVIEWED

On August 4, 2020, the U.S. Agency for International Development (USAID) awarded a 5-year, \$55,773,831 cooperative agreement to Family Health International (FHI 360) to support the Advancing Higher Education for Afghanistan Development (AHEAD) program. (The total amount included a cost sharing agreement wherein FHI 360 agreed to contribute cash and in-kind contributions of \$5,773,914). AHEAD's objective was to support Afghan higher education institutions, and the former Ministry of Higher Education, in improving access to and the quality of higher education in Afghanistan. USAID modified the cooperative agreement four times; the modifications did not change the total award amount, but the period of performance end date was changed from August 4, 2025, to May 13, 2022.

SIGAR's financial audit, performed by Davis Farr LLP (Davis Farr), reviewed \$7,988,173 in costs and cost sharing, charged to the award from August 5, 2020, through June 30, 2022. The objectives of the audit were to (1) identify and report on material weaknesses or significant deficiencies in FHI 360's internal controls related to the agreement, (2) identify and report on instances of material noncompliance with the award terms 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 Davis Farr's report for the precise audit objectives.

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

August 2023

USAID's Advancing Higher Education for Afghanistan Development Program: Audit of Costs Incurred by FHI 360

SIGAR 23-31-FA

### WHAT SIGAR FOUND

Davis Farr identified three deficiencies in FHI 360's internal controls, one instance of noncompliance with the terms of the cooperative agreement, and two instances of noncompliance with the U.S. Code of Federal Regulations. For example, the auditors found that FHI 360 could not provide documentation to support 4 of 16 tested labor costs for one sub-awardee, resulting in unsupported labor costs and the associated indirect costs charged to the cooperative agreement. SIGAR notified FHI 360 of the deficiencies and compliance issue prior to publication of this report.

Because of the deficiencies in internal controls and noncompliance, Davis Farr identified \$518 in total questioned costs, consisting entirely of unsupported costs—costs not supported with adequate documentation or that do not have required prior approval. Davis Farr did not identify any ineligible costs—costs prohibited by the cooperative agreement and applicable laws and regulations.

Category	Ineligible	Unsupported	Total Questioned Costs
Direct Costs	\$0	\$497	\$497
Indirect Costs	\$0	\$21	\$21
<b>Total Costs</b>	<b>\$0</b>	<b>\$518</b>	<b>\$518</b>

Davis Farr identified six prior audit reports that were relevant to the FHI 360 agreement. Of the six reports, four had no findings, and Davis Farr determined that FHI 360 had taken adequate corrective action on the findings in the remaining two reports.

Davis Farr issued an unmodified opinion on FHI 360's SPFS, noting that it presents fairly, in all material respects, revenues received, and costs incurred for the period audited.

### WHAT SIGAR RECOMMENDS

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

- 1. Determine the allowability of and recover, as appropriate, \$518 in questioned costs identified in the report.**
- 2. Advise FHI 360 to address the report's three internal control findings.**
- 3. Advise FHI 360 to address the report's three noncompliance findings.**



**SIGAR**

Office of the Special Inspector General  
for Afghanistan Reconstruction

August 30, 2023

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

Mr. Sean Callahan  
Mission Director, U.S. Agency for International Development

We contracted with Davis Farr LLP (Davis Farr) to audit costs incurred by FHI 360 under a cooperative agreement from the U.S. Agency for International Development (USAID) to support the Advancing Higher Education for Afghanistan Development (AHEAD) program for the former Afghan government's Ministry of Higher Education.<sup>1</sup> The program's objective was to support Afghan higher education institutions and the former Ministry of Higher Education in improving access to and quality of higher education in Afghanistan. Davis Farr reviewed \$7,988,173 in costs charged to the cooperative agreement from August 5, 2020, through June 30, 2022. Our contract with Davis Farr required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States.

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

- 1. Determine the allowability of and recover, as appropriate, \$518 in questioned costs identified in the report.**
- 2. Advise FHI 360 to address the report's three internal control findings.**
- 3. Advise FHI 360 to address the report's three noncompliance findings.**

Davis Farr discusses the results of the audit in detail in the attached report. We reviewed Davis Farr's report and related documentation. We also inquired about Davis Farr's conclusions in the report and the firm's compliance with applicable standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on FHI 360's Special Purpose Financial Statement, or conclusions about the effectiveness of internal control over financial reporting or on compliance with laws and other matters. Davis Farr is responsible for the attached auditor's report, dated July 17, 2023, and the conclusions expressed therein. However, our review disclosed no instances where Davis Farr did not comply, in all material respects, with U.S. generally accepted government auditing standards issued by the Comptroller General of the United States.

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

John F. Sopko  
Special Inspector General  
for Afghanistan Reconstruction

(F-250)

<sup>1</sup> The cooperative agreement no. is 72030620CA00008.

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

Table of Contents

	<u>Page</u>
Transmittal Letter	i
Background	1
Work Performed	1
Objectives, Scope, and Methodology	1
Summary of Results	4
Review of Prior Findings and Recommendations	5
Summary of FHI 360's Responses to Findings	5
References to Appendices	6
<b>Independent Auditor's Report on Special Purpose Financial Statement</b>	7
Special Purpose Financial Statement	10
Notes to Special Purpose Financial Statement	11
Notes to Questioned Costs Presented on Special Purpose Financial Statement	14
Report on Internal Control Over Financial Reporting Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	15
Report on Compliance and Other Matters Based on an Audit of the Special Purpose Financial Statement Performed in Accordance with <i>Government Auditing Standards</i>	17
Detailed Audit Findings	19
Status of Prior Findings	27
Appendices:	
Appendix A: Views of Responsible Officials	28
<b>Appendix B: Auditor's Rebuttal to the FHI 360's Response to Findings</b>	30

August 4, 2023

Enclosed is the final report on the audit of the Special Purpose Financial Statement of Family Health International (FHI 360) under United States Agency for International Development (USAID) Cooperative Agreement No. 72030620CA00008 to provide support for the Advancing Higher Education for Afghanistan Development (AHEAD) program. The audit covers the period August 5, 2020 through June 30, 2022.

Included within the final report is a summary of the work performed, 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 from FHI 360, the Special Inspector General for Afghanistan Reconstruction, and USAID. Management of FHI 360 has prepared a response to the findings identified during our audit and that response is included as part of this report. The response has not been audited and we express no opinion on it.

Sincerely,

DAVIS FARR LLP



Marcus D. Davis, CPA  
Partner

# FAMILY HEALTH INTERNATIONAL (FHI) 360

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

## Background

On August 4, 2020, the United States Agency for International Development (USAID) awarded Cooperative Agreement No. 72030620CA00008 (Agreement) to Family Health International (FHI 360) to provide support for the Advancing Higher Education for Afghanistan Development (AHEAD) program. The purpose of the AHEAD program is to support Afghan higher education institutions and the Ministry of Higher Education to improve access to, and quality of, higher education. Education services for the AHEAD program focused on expanding e-learning and student-centered pedagogy, to reach more women and vulnerable groups including students with disabilities, internally displaced populations, and the rural poor.

The initial awarded amount was \$49,999,917 plus a cost share of \$5,773,914 for total program activity of \$55,773,831. Of the initial awarded amount, \$6,785,000 was obligated. The initial period of performance was from August 5, 2020 through August 4, 2025. After four modifications, the awarded amount remained the same, the obligated amount was increased to \$8,172,471, the cost share was reduced to \$72,517 and the end date of the period of performance was revised to May 13, 2022.

Established in 1971, FHI 360 is an international nonprofit global health and development organization that offers diversified research and education services. FHI 360 has maintained a presence in Afghanistan since 2014, and focused its efforts on health, education, and workforce development strategies.

## Work Performed

Davis Farr LLP (Davis Farr) was engaged by the Office of the Special Inspector General for Afghanistan Reconstruction (SIGAR) to conduct an **audit of FHI 360's Special Purpose Financial Statement (SPFS)** for the Agreement for the period August 5, 2020 through June 30, 2022. Although the period of performance ended May 13, 2022, FHI 360 has until September 10, 2022 to incur costs for closeout purposes. Total costs reported by FHI 360 were \$7,909,107 plus \$79,066 in cost share.

## Objectives, Scope, and Methodology

### Objectives Defined by SIGAR

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

- *Special Purpose Financial Statement (SPFS)* – Express an opinion on whether FHI 360's **SPFS** for the 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 Agreement and generally accepted accounting principles or other comprehensive basis of accounting.

## FAMILY HEALTH INTERNATIONAL (FHI) 360

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

- *Internal Controls* – Evaluate and obtain a sufficient understanding of FHI 360’s **internal control** related to the Agreement; assess control risk; and identify and report on significant deficiencies including material internal control weaknesses.
- *Compliance* – Perform tests to determine whether FHI 360 complied, in all material respects, with the Agreement requirements and applicable laws and regulations; and identify and report on instances of material noncompliance with terms of the Agreement and applicable laws and regulations, including potential fraud or abuse that may have occurred.
- *Corrective Action on Prior Findings and Recommendations* – Determine and report on whether FHI 360 has taken adequate corrective action to address findings and recommendations from previous engagements that could have a material effect on the SPFS or other financial data significant to the audit objectives.

### Scope

Total costs incurred for the period August 5, 2020 through June 30, 2022 were \$7,909,107, plus \$79,066 in cost share. The scope of the audit included the total costs incurred of \$7,909,107, plus cost share of \$79,066. Although the period of performance of the Agreement is complete, FHI 360 can continue to incur costs through September 10, 2022. Our testing of the indirect cost rates was limited to verifying that the rates were calculated using the rates identified in the Negotiated Indirect Cost Rate Agreement (NICRA) approved by USAID.

### Methodology

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

#### Entrance Conference

An entrance conference was held via Zoom on September 8, 2022 with representatives of Davis Farr, FHI 360, SIGAR and USAID in attendance.

#### Planning

During our planning phase, we performed the following:

- Obtained an understanding of FHI 360;
- Reviewed the Agreement and all modifications to date;
- Reviewed sections of the Code of Federal Regulations (CFR) as applicable to the Agreement;
- Performed a financial reconciliation; and
- Selected samples based on our approved sampling techniques. According to the approved Audit Plan, we used the detailed accounting records that were reconciled to the financial reports and based upon the risk assessment and materiality included as part of the approved

## FAMILY HEALTH INTERNATIONAL (FHI) 360

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

Audit Plan, we performed data mining to assess individual expenditure accounts and transactions that were considered to be high, moderate, or low risk for inclusion in our test of transactions. All samples were selected on a judgmental basis. Our sampling methodology was as follows:

- o For accounts that appear to contain unallowable and restricted items according to the terms of the Agreement, 2 CFR 200 and any other applicable regulations, we sampled 100% of the transactions.
- o Although no disclosed vendor related party transactions were noted, our testing of all transactions included a vendor review to ensure that the vendor was not a related party.
- o For high risk cost categories, we sampled transactions greater than \$39,500, and additional transactions below \$39,500 to ensure that at least 50% of the total amount expended for each cost category was sampled.
- o For moderate risk cost categories, we sampled transactions greater than \$79,000, and additional transactions below \$79,000 to ensure that at least 20% of the total amount expended for each cost category was sampled.
- o For low risk cost categories, which consisted of fringe benefits and indirect costs, no sample was selected. Instead, we tested the proper application of the fringe benefits and indirect cost rates as specified in the Agreement and NICRA.

### Internal Control Related to the SPFS

We reviewed FHI 360's **internal controls related to the** Agreement. The system of internal control is intended to provide reasonable assurance of achieving reliable financial reporting and compliance with applicable laws and regulations. We corroborated internal control identified by FHI 360 and conducted testing of select key controls to understand if they were implemented as designed and operating effectively.

### Compliance with Agreement Requirements and Applicable Laws and Regulations

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

### Corrective Action on Prior Findings and Recommendations

We reached out to SIGAR, FHI 360 and USAID and requested all reports from previous engagements, as well as searched publicly available information for other reports, in order to evaluate the adequacy of corrective actions taken on findings and recommendations that could have a material effect on the SPFS. See the Review of Prior Findings and Recommendations subsection of this Summary for this analysis.

# FAMILY HEALTH INTERNATIONAL (FHI) 360

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

## Special Purpose Financial Statements

In reviewing the SPFS, we performed the following:

- Reconciled the costs on the SPFS to the Agreement, modifications and general ledger;
- Traced receipt of funds to the accounting records; and
- Sampled and tested the costs incurred to ensure the costs were allowable, allocable to the Agreement, and reasonable. If the results of a judgmental sample indicated a material error rate, our audit team consulted with our Audit Manager and Partner as to whether the sample size should be expanded. If it appeared that based upon the results of the judgmental sample, an entire account was deemed not allowable, we did not expand our testing, but instead questioned the entire account.

## Exit Conference

An exit conference was held on March 16, 2023 online via Zoom. Participants included representatives from Davis Farr, FHI 360, SIGAR and USAID. During the exit conference, we discussed the preliminary results of the audit and established a timeline for providing any final documentation for consideration and reporting.

## Summary of Results

Our audit of the costs incurred by FHI 360 under the Agreement with USAID identified the following results:

### Auditor's Opinion on SPFS

We issued an unmodified opinion on the fairness of the presentation of the SPFS. We identified \$518 in questioned costs which entirely consist of unsupported costs. A summary of findings and questioned costs is described in the next section.

### Summary of Findings and Questioned Costs

Finding Number	Nature of Finding	Issue	Questioned Costs	Cumulative Questioned Costs
2022-01	Internal control – deficiency Non-compliance	Unsupported labor costs for sub-awardee	\$518	\$518
2022-02	Internal control – deficiency Non-Compliance	Incorrect indirect costs application	\$0	\$518

# FAMILY HEALTH INTERNATIONAL (FHI) 360

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

Finding Number	Nature of Finding	Issue	Questioned Costs	Cumulative Questioned Costs
2022-03	Internal control – deficiency Non-compliance	Lack of competitive bidding	\$0	\$518

### Internal Control Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material misstatement, we considered FHI 360's **internal control over financial reporting and performed tests** of those controls. The results of our tests disclosed three internal control weaknesses required to be reported under *Government Auditing Standards*, all three are considered deficiencies.

See **Independent Auditor's Report on Internal Control**, page 15.

### Compliance Findings

As part of obtaining reasonable assurance about whether the SPFS is free from material **misstatement, we performed tests of FHI 360's compliance with certain provisions of the Agreement** and other laws and regulations, noncompliance with which could have a direct and material effect on the determination of the SPFS. The results of our tests disclosed three instances of noncompliance **related to this audit. See Independent Auditor's Report on Compliance on page 17.**

In performing our testing, we considered whether the information obtained during our testing resulted in either detected or suspected material fraud, waste, or abuse, which would be subject to reporting under *Government Auditing Standards*. Evidence of such items was not identified by our testing.

### Review of Prior Findings and Recommendations

We requested from FHI 360, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to FHI 360's **activities under the Agreement**. We obtained and reviewed six prior reports, which consisted of three prior SIGAR audits and three annual financial audits. Two of the prior SIGAR reports contained findings which were reviewed and considered resolved by other auditors. The remaining four reports contained no findings.

### Summary of FHI 360's Responses

The following represents a summary of the responses provided by FHI 360 to the findings identified in this report. The complete response received can be found in Appendix A to this report.

## FAMILY HEALTH INTERNATIONAL (FHI) 360

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

- Finding 2022-01 – FHI 360 disagreed with this finding indicating that the cause of the finding was inaccurate, but provided no response on the unsupported labor costs.
- Finding 2022-02 – FHI 360 disagreed with this finding indicating that it is acceptable to invoice the U.S. Government using indirect cost rates less than those included in the NICRA.
- Finding 2022-03 – FHI 360 agrees with this finding on lack of competitive bidding.

### References to Appendices

The auditor's reports are supplemented by two appendices, Appendix A, which contains management's responses to the audit findings and Appendix B, which contains the auditor's rebuttal to management's comments.

**INDEPENDENT AUDITOR'S REPORT**  
ON SPECIAL PURPOSE FINANCIAL STATEMENT

Family Health International (FHI 360)  
359 Blackwell Street, Suite 200  
Durham, North Carolina 27701

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

Report on the Special Purpose Financial Statement

*Opinion*

We have audited the Special Purpose Financial Statement of Family Health International (FHI 360) under Cooperative Agreement No. 72030620CA00008 (Agreement) with the United States Agency for International Development (USAID) to provide support for the Advancing Higher Education for Afghanistan Development (AHEAD) program for the period August 5, 2020 through June 30, 2022, and the related notes to the Special Purpose Financial Statement.

In our opinion, the accompanying Special Purpose Financial Statement presents fairly, in all material respects, the respective revenue received, and costs incurred by FHI 360 under the Agreement for the period August 5, 2020 through June 30, 2022, in accordance with the basis of accounting described in Note 2.

*Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further **described in the Auditor's Responsibilities for the Audit of the Special Purpose Financial Statement** section of our report. We are required to be independent of FHI 360 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Basis of Accounting*

We draw attention to Note 2 of the Special Purpose Financial Statement, which describes the basis of accounting. As described in Note 2, the Special Purpose Financial Statement is prepared by FHI 360 on the basis of the requirements provided by SIGAR, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Family Health International (FHI 360)  
359 Blackwell Street, Suite 200  
Durham, North Carolina 27701

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

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### *Responsibilities of Management for the Special Purpose Financial Statement*

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

In preparing the Special Purpose Financial Statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about FHI 360's **ability to continue as a going concern** for the later of twelve months beyond the Special Purpose Financial Statement date or the end of the period of performance of the Agreement.

### *Auditor's Responsibility for the Audit of the Special Purpose Financial Statement*

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the Special Purpose Financial Statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Special Purpose Financial Statement.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FHI 360's **internal control**. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Special Purpose Financial Statement.

Family Health International (FHI 360)  
359 Blackwell Street, Suite 200  
Durham, North Carolina 27701

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Arlington, Virginia 22202

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- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FHI 360's **ability to continue as a going concern** for a reasonable period of time.

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

#### *Restriction on Use*

This report is intended for the information of FHI 360, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 17, 2023, on our consideration of FHI 360's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is solely 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.

*Dawn Fann LLP*

Irvine, California  
July 17, 2023

FAMILY HEALTH INTERNATIONAL (FHI 360)

Special Purpose Financial Statement  
 For Cooperative Agreement No. 72030620CA00008  
 Advancing Higher Education for Afghanistan Development (AHEAD)

For the period August 5, 2020 through June 30, 2022

	<u>Budget</u>	<u>Costs Incurred</u>	<u>Questioned Costs</u>			<u>Notes</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Total</u>	
Revenues:						
72030620CA00008	<u>\$ 49,999,917</u>	<u>\$ 7,909,107</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(3)
Total revenues	<u>49,999,917</u>	<u>7,909,107</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Costs incurred:						
Personnel	\$ 10,096,221	\$ 2,555,348	-	-	-	
Fringe	2,799,179	867,776	-	-	-	
Travel	1,267,587	74,330	-	-	-	
Contractual	19,330,109	1,396,504	-	497	497	(A)
Other direct costs/services	7,185,733	1,230,009	-	-	-	
Indirect costs	<u>9,321,088</u>	<u>1,785,140</u>	<u>-</u>	<u>21</u>	<u>21</u>	(4),(B)
Total costs incurred	<u>49,999,917</u>	<u>7,909,107</u>	<u>-</u>	<u>518</u>	<u>518</u>	
Outstanding fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (518)</u>	<u>\$ (518)</u>	(5),(C)
Cost share	<u>\$ 72,517</u>	<u>\$ 79,066</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

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

# FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

Notes to Special Purpose Financial Statement<sup>1</sup>

For the period August 5, 2020 through June 30, 2022

## (1) Background

On August 4, 2020, the United States Agency for International Development (USAID) awarded Cooperative Agreement No. 72030620CA00008 (Agreement) to Family Health International (FHI 360) to provide support for the Advancing Higher Education for Afghanistan Development (AHEAD) program. The purpose of the AHEAD program is to support Afghan higher education institutions and the Ministry of Higher Education to improve access to, and quality of, higher education. Education services for the AHEAD program focused on expanding e-learning and student-centered pedagogy, to reach more women and vulnerable groups including students with disabilities, internally displaced populations, and the rural poor.

The initial awarded amount was \$49,999,917 plus a cost share of \$5,773,914 for total program activity of \$55,773,831. Of the initial awarded amount, \$6,785,000 was obligated. The initial period of performance was from August 5, 2020 through August 4, 2025. After four modifications, the awarded amount remained the same, the obligated amount was increased to \$8,172,471, the cost share was reduced to \$72,517 and the end date of the period of performance was revised to May 13, 2022.

Established in 1971, FHI 360 is an international nonprofit global health and development organization that offers diversified research and education services. FHI 360 has maintained a presence in Afghanistan since 2014, and focused its efforts on health, education, and workforce development strategies.

## (2) Summary of Significant Accounting Policies

### Basis of Presentation

The accompanying Special Purpose Financial Statement (SPFS) includes revenue earned and costs incurred under the Agreement for the period August 5, 2020 through June 30, 2022. Because the SPFS presents only a selected portion of the operations of FHI 360, it is not intended to and does not present the financial position, changes in financial position, or cash flows of FHI 360. The information in the SPFS is presented in accordance with the requirements specified by the Special Inspector General for Afghanistan Reconstruction (SIGAR), accounting principles generally accepted in the United States of America and is specific to the aforementioned Agreement.

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<sup>1</sup> The Notes to the Special Purpose Financial Statement with a numeric identifier are the responsibility of FHI 360.

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

Notes to Special Purpose Financial Statement<sup>1</sup>

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Basis of Accounting

The SPFS was prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. Additionally, expenses are recognized following the cost principles contained in 2 CFR 200 Subpart E and 2 CFR 700, wherein certain types of expenses are not allowable or are limited as to reimbursement.

Currency

The SPFS is presented in U.S. Dollars. FHI 360 converts any expenses that were paid in Afghanis (local currency) into U.S. Dollars (reporting currency) by using the last actual conversion rate for transfers made to move funds between its U.S. Dollar account and the Afghani account.

(3) Revenue

FHI 360 reported revenue of \$7,909,107 for the period August 5, 2020 through June 30, 2022.

(4) Indirect Costs

**FHI 360's** indirect costs were stated in the Agreement, and subsequently updated and approved by USAID in a Negotiated Indirect Cost Rate Agreement (NICRA) dated September 21, 2020. The following indirect cost rates were applicable to the Agreement.

TYPE	EFFECTIVE PERIOD		INDIRECT COSTS		
	FROM	THROUGH	FRINGE BENEFIT (a)	SUBAWARD/SUBRECIPIENT MANAGEMENT (b)	G&A (c)
Provisional	10-01-19	Until Amended	30.85%	4.20%	39.83%

Base of Application

(a) Total salary expense excluding local hired and local paid employees and contract employees located overseas

(b) Total direct subcontract/subrecipient expenses

(c) Total direct costs excluding pharmaceutical, commodity purchases, equipment greater than \$5,000, participant expenses, donated goods and services, in kind contributions, vehicles, and subcontract/subrecipient expenses.

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

Notes to Special Purpose Financial Statement<sup>1</sup>

(Continued)

(5) Outstanding Fund Balance

As of June 30, 2022, there was no outstanding fund balance under the Agreement.

(6) Subsequent Events

FHI 360 has evaluated subsequent events through July 17, 2023, which is the date the SPFS was available to be issued. There were no events subsequent to this date that would impact the SPFS.

## FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

Notes to Questioned Costs Presented on the Special Purpose Financial Statement<sup>2</sup>

For the period August 5, 2020 through June 30, 2022

There are two categories of questioned costs, ineligible and unsupported. Ineligible costs are those costs that are explicitly questioned because they are unreasonable, prohibited by the agreement, prohibited by applicable laws and regulations, or not award related. Unsupported costs are not supported with adequate documentation or did not have required prior approvals or authorizations.

(A) Contractual

FHI 360 reported contractual costs of \$1,396,504 for the period August 5, 2020 through June 30, 2022. During our audit of these costs, we identified \$497 in questioned costs consisting of unsupported labor costs from one of FHI 360 sub-awardees. See Finding No. 2022-01.

(B) Indirect Costs

FHI 360 reported indirect costs in the amount of \$1,785,140 for the period August 5, 2020 through June 30, 2022. The indirect cost rates described in Note 4 of the Notes to Special Purpose Financial Statement were applied to the associated questioned costs identified in Note A, which resulted in questioned (unsupported) indirect costs of \$21.

(C) Outstanding Fund Balance

FHI 360 reported no outstanding fund balance for the period August 5, 2020 through June 30, 2022. The total outstanding fund balance as of June 30, 2022 in the amount of \$(518) represents the total questioned unsupported costs of \$518 of the reported outstanding fund balance.

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<sup>2</sup> The Notes to Questioned Costs Presented on the Special Purpose Financial Statement with an alphabetical identifier were prepared by Davis Farr LLP for information purposes only and as such are not a part of the audited Special Purpose Financial Statement.

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

**INDEPENDENT AUDITOR'S REPORT**

Family Health International (FHI 360)  
359 Blackwell Street, Suite 200  
Durham, North Carolina 27701

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 (*Government Auditing Standards*), the Special Purpose Financial Statement of Family Health International (FHI 360) under Cooperative Agreement No. 72030620CA00008 (Agreement) with the United States Agency for International Development (USAID) to provide support for the Advancing Higher Education for Afghanistan Development (AHEAD) program for the period August 5, 2020 through June 30, 2022, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated July 17, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Special Purpose Financial Statement, we considered the FHI 360's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Special Purpose Financial Statement, but not for the purpose of expressing an opinion on the effectiveness of the FHI 360's internal control. Accordingly, we do not express an opinion on the effectiveness of the FHI 360's internal control.

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

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

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weaknesses or significant deficiencies may exist that were not identified. We identified three deficiencies in internal control, described in the accompanying Detailed Audit Findings as Finding Numbers 2022-01, 2022-02 and 2022-03 that we consider to be deficiencies.

### The FHI 360's **Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on FHI 360's **response to the findings identified in our audit and described in the** accompanying Detailed Audit Findings. **FHI 360's response was not subjected to the other auditing** procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and the result of that testing, and not to provide an opinion on the effectiveness of the 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, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Davis Fann LLP*

Irvine, California  
July 17, 2023

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

**INDEPENDENT AUDITOR'S REPORT**

Family Health International (FHI 360)  
359 Blackwell Street, Suite 200,  
Durham, NC 27701

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 (*Government Auditing Standards*), the Special Purpose Financial Statement of Family Health International (FHI 360) under Cooperative Agreement No. 72030620CA00008 (Agreement) with the United States Agency for International Development (USAID) to provide support for the Advancing Higher Education for Afghanistan Development (AHEAD) program for the period August 5, 2020 through June 30, 2022, and the related notes to the Special Purpose Financial Statement, and have issued our report thereon dated July 17, 2023.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether FHI 360's Special Purpose Financial Statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and the aforementioned agreement, noncompliance with which could have a direct and material effect on the determination of Special Purpose 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 three instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Detailed Audit Findings as Finding Numbers 2022-01, 2022-02 and 2022-03.

**FHI 360's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on FHI 360's **response to the findings identified in our audit and described in the** accompanying Detailed Audit Findings. **FHI 360's response was not subjected to the other auditing** procedures applied in the audit of the Special Purpose Financial Statement and, accordingly, we express no opinion on the response.

Family Health International (FHI 360)  
359 Blackwell Street, Suite 200,  
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Office of the Special Inspector General for Afghanistan Reconstruction  
2530 Crystal Drive  
Arlington, Virginia 22202

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### Purpose of this Report

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

### Restriction on Use

This report is intended for the information of FHI 360, USAID, and the Special Inspector General for Afghanistan Reconstruction (SIGAR), and is not intended to be and should not be used by anyone other than these specified parties. Financial information in this report may be privileged. The restrictions of 18 U.S.C. 1905 should be considered before any information is released to the public. However, subject to applicable laws, this report may be released to Congress and to the public by SIGAR in order to provide information about programs and operations funded with amounts appropriated or otherwise made available for the reconstruction of Afghanistan.

*Darin Fann LLP*

Irvine, California  
July 17, 2023

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

Detailed Audit Findings

For the period August 5, 2020, through June 30, 2022

Finding 2022-01: Unsupported Labor Costs for Sub-awardee

Nature of Finding:  
Internal control – Deficiency  
Noncompliance

Condition:

We tested 16 contractual transactions totaling \$754,587 out of a population of 109 contractual transactions totaling \$1,396,504 and noted that 4 transactions from one sub-awardee did not have adequate supporting documentation to ensure that the correct labor costs were billed to the AHEAD program. As such, we recalculated the allocation of salaries for each faculty and staff member included on the invoices tested using the information from effort statements, quarterly invoice reports, and annual salary rates provided. Our recalculation determined that the sub-awardee overbilled FHI 360 by \$497.

Criteria:

Sub-awardee Grant PO No. PO21000820, Article 3, *Conditions of Funding*, states, in part:

“i. Payment will be on a cost reimbursement basis. FHI 360 will reimburse only those direct costs that are identified in the approved Grant Budget in Attachment B and are determined to be allowable and allocable under the cost principles followed by FHI 360 and provided in 2 CFR 200 Subpart E – Cost Principles...”

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

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

(g) Be adequately documented...”

2 CFR §200.430(i), *Standards for Documentation of Personnel Expenses*, states, in part:

“(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated; ...

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost

## FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

### Detailed Audit Findings

(Continued)

activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity...”

#### Cause:

The sub-awardee adjusts its labor cost allocation based on the final effort reports submitted by each faculty and staff after the end of each semester. As a result, the initial salary allocations completed before the final effort statements may not match the adjusted salary allocation after the effort statements. A reconciliation of labor costs was not performed based on the final statements submitted by faculty and staff.

#### Effect:

Not performing a reconciliation of labor costs allocation based on the final effort statements submitted by faculty and staff can result in the U.S. Government being overcharged in labor costs reported.

#### Questioned Costs:

Total questioned costs (unsupported) resulting from discrepancies in labor costs charged by a sub-awardee to FHI 360 was \$518, including associated indirect cost

#### Recommendation:

- (1) We recommend that FHI 360 and its sub-awardee either provide adequate documentation to support the costs incurred or return \$518 to the U.S. Government.
- (2) We recommend that the sub-awardee establish procedures to perform a reconciliation of labor costs allocation based on the final effort reports submitted by faculty and staff to prevent any potential overcharge in labor costs reported to the U.S. Government.

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
 For Cooperative Agreement No. 72030620CA00008  
 Advancing Higher Education for Afghanistan Development (AHEAD)

Detailed Audit Findings

(Continued)

Finding 2022-02: Incorrect Indirect Costs Rates

Nature of Finding:  
 Internal control – deficiency  
 Noncompliance

Condition:

FHI 360 did not charge the full indirect costs during the audit period to which it was entitled. We recalculated the indirect costs and noted the following amounts which were undercharged by FHI 360.

<u>Indirect Cost</u>	<u>Base</u>	<u>Indirect Cost Rate</u>	<u>Allowable Indirect Costs per Audit</u>	<u>Indirect Costs Included on SPFS</u>	<u>Undercharged Indirect Costs</u>
Fringe benefit	\$1,734,724	30.85%	\$ 535,162	\$ 482,619	\$ 52,543
Subaward/subrecipient management	1,396,504	4.20%	58,653	53,785	4,868
General & administrative (G&A)	4,727,435	39.83%	<u>1,882,937</u>	<u>1,731,355</u>	<u>151,582</u>
Totals			<u>\$2,476,752</u>	<u>\$2,267,759</u>	<u>\$208,993</u>

Criteria:

Cooperative Agreement No. 72030620CA00008, Attachment A, *The Schedule*, Section A.6, *Indirect Costs*, states:

“Pending establishment of revised provisional or final indirect cost rates, allowable indirect costs shall be reimbursed on the basis of the following negotiated provisional rates and the appropriate bases per the organization’s NICRA:

TYPE	EFFECTIVE PERIOD		INDIRECT COSTS		
	FROM	THROUGH	FRINGE BENEFIT (a)	SUBAWARD/SUBRECIPIENT MANAGEMENT (b)	G&A (c)
Final	10-01-14	09-30-15	30.91%	4.65%	35.47%
Provisional	10-01-15	09-30-16	31.06%	3.27%	33.79%
Provisional	10-01-16	09-30-17	28.29%	2.54%	31.25%
Provisional	10-01-17	09-30-18	28.35%	2.25%	33.92%
Provisional	10-01-18	Until Amended	28.55%	3.74%	37.02%

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
 For Cooperative Agreement No. 72030620CA00008  
 Advancing Higher Education for Afghanistan Development (AHEAD)

Detailed Audit Findings

(Continued)

Base of Application

- (a) Total salary expense excluding local hired and local paid employees and contract employees located overseas
- (b) Total direct subcontract/subrecipient expenses
- (c) Total direct costs excluding pharmaceutical, commodity purchases, equipment greater than \$5,000, participant expenses, donated goods and services, in kind **contributions, vehicles, and subcontract/subrecipient expenses."**

USAID Negotiated Indirect Cost Rate Agreement dated September 21, 2020, states, in part:

**"The rates approved in this Agreement are** for use on grants, contracts and other agreements with the Federal Government to which 2 Code of Federal Regulations (CFR) **200 applies...**

TYPE	EFFECTIVE PERIOD		INDIRECT COSTS		
	FROM	THROUGH	FRINGE BENEFIT (a)	SUBAWARD/SUBRECIPIENT MANAGEMENT (b)	G&A (c)
Final	10-01-15	09-30-16	31.06%	3.27%	33.79%
Final	10-01-16	09-30-17	28.29%	2.54%	31.25%
Final	10-01-17	09-30-18	28.35%	2.25%	33.92%
Provisional	10-01-18	09-30-19	29.42%	2.95%	35.69%
Provisional	10-01-19	Until Amended	30.85%	4.20%	39.83%

Base of Application

- (a) Total salary expense excluding local hired and local paid employees and contract employees located overseas
- (b) Total direct subcontract/subrecipient expenses
- (c) Total direct costs excluding pharmaceutical, commodity purchases, equipment greater than \$5,000, participant expenses, donated goods and services, in kind **contributions, vehicles, and subcontract/subrecipient expenses."**

Cause:

FHI 360 did not adjust its indirect costs to reflect the most recent indirect cost rates approved in the Negotiated Indirect Cost Rate Agreement (NICRA) dated September 21, 2020 due to a lack of review to ensure the most current rates are being charged.

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

Detailed Audit Findings

(Continued)

Effect:

Applying the wrong indirect cost rates results in the financial reports containing inaccurate indirect costs and a potential overpayment to the U.S. Government.

Questioned Costs:

Although FHI 360 did not apply the correct indirect cost rates which resulted in discrepancy in the total costs reported, the effect of this discrepancy did not result in overcharge to the U.S. Government. As such, no costs were questioned.

Recommendation:

We recommend that FHI 360 establish procedures to ensure that it has applied the correct indirect costs rates established in the NICRA applicable to each financial reporting period.

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
 For Cooperative Agreement No. 72030620CA00008  
 Advancing Higher Education for Afghanistan Development (AHEAD)

Detailed Audit Findings

(Continued)

Finding 2022-03: Lack of Competitive Bidding

Nature of Finding:  
 Internal control – deficiency  
 Noncompliance

Condition:

We tested 85 other direct costs transactions totaling \$623,428 out of a population of 7,014 transactions totaling \$1,230,009 and noted that **FHI 360’s procurement process was not** followed as it relates to competitive bidding. Specifically, contracts that exceeded \$150,000 were awarded to a subcontractor for office space and accommodations for project personnel and to an additional subcontractor for risk management services. Evidence of competitive bidding for these contracts was not provided.

Criteria:

FHI 360 Afghanistan Field Procurement Manual, Section 3.1, *Bid Threshold, Competition, Advertising and Documentation Requirements*, states, in part:

**“All contracts** for goods or services must be awarded on a competitive basis to the maximum extent practical. The following table establishes minimum FHI 360 bid thresholds, advertising and competition for commercial goods and services:

Item	Transaction Value	Competition Required	Advertising Needed	Documentation
1	Up to \$500	None	None	Payment Request Form, Purchase Requisition, GRN, and invoice.
2	>\$500 to \$3,500	Buyer discretion, but some form cost justification Required. Comparison of two oral or written quotes preferred.	None	(1) + Purchase Order, Memo to file
3	\$3,501 to \$30,000	Formal solicitation of quotes required	Targeted dissemination <u>or</u> advertising with minimum of 5 business days.	(1) + (2) + Written Quotes, SAM Report, Terrorism (OFAC + UN) Checks

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
 For Cooperative Agreement No. 72030620CA00008  
 Advancing Higher Education for Afghanistan Development (AHEAD)

Detailed Audit Findings

(Continued)

Item	Transaction Value	Competition Required	Advertising Needed	Documentation
4	\$30,001 to \$150,000	Formal documentation of competition is required in the form of <u>written bid solicitations</u> and receipt of signed offers from at least three vendors.	Targeted dissemination of the solicitation to a sufficient number of specific vendors <u>designed to result in receipt of at least three written quotes is allowed.</u>  The RFP should allow at least 5 business days for a response from the date the responses to questions are posted.	(1) + (2) + Solicitation, Bid Responses and SAM report, Terrorism (OFAC + UN) Checks, and Selection Memo
5	\$150,001 and up	<b>"Free and Open"</b> Competition is required at this level	Advertising of the solicitation is required for at least 5 business days from the date that responses to questions are posted	(4) Evidence of advertising; Terrorism (OFAC + UN) checks. For Acquisition awards, any procurement with the total value above \$250K requires COR approval..."

2 CFR §200.319, *Competition*, states, in part:

"(a) All procurement transactions must be conducted in a manner providing full and open competition consistent with the standards of this section...

(d) The non-Federal entity must have written procedures for procurement **transactions..."**

Cause:

FHI 360 indicated that it has an internal practice to not publicly advertise for services related to the security of its personnel or its operations.

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

Detailed Audit Findings

(Continued)

Effect:

Not performing a free and open competitive procurement process on purchases greater than \$150,000 resulted in non-compliance with **FHI 360's** Afghanistan Field Procurement Manual and the Code of Federal Regulations.

Questioned Costs:

Although FHI 360 did not retain documents to evidence that it complied with its policies and procedures, as well as Federal regulations, the procurement of the services were supported by quotations, price analysis, and USAID approval and thus were deemed sufficient to determine the costs were reasonable, allowable, and allocable to the Agreement. As such, no costs were questioned.

Recommendation:

We recommend that FHI 360 update its existing procedures to document its internal practice to not publicly advertise for services related to the security of its personnel or its operations.

FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

Status of Prior Findings

For the period August 5, 2020, through June 30, 2022

We requested from FHI 360, SIGAR and USAID copies of any prior engagements including audits, reviews, attestation engagements and other studies that relate to FHI 360's **activities under the Agreement**. We obtained and reviewed six prior reports, which consisted of three prior SIGAR audits and three annual financial audits. Our review of these reports noted the following:

Reports with no findings	4
Reports with findings that were reviewed by other auditors and corrective actions were deemed adequate	2
Reports with findings requiring our evaluation of corrective actions	<u>0</u>
Total number of reports reviewed	<u>6</u>

As such, there were no outstanding prior findings requiring our review.



**APPENDIX A: Views of Responsible Officials**

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July 26, 2023

Davis Farr LLP  
2301 Dupont Drive, Suite 200  
Irvine, California 92612

**Subject:** Closeout Audit of the Special Purpose Financial Statement for Cooperative Agreement No. 72030620CA00008, Advancing Higher Education for Afghanistan Development (AHEAD), for the period August 5, 2020, through June 30, 2022

Dear Mr. Marc Davis:

FHI 360 is pleased to present its management responses to the audit and cooperative agreement referenced above. We are confident that the response enclosed is comprehensive and satisfactory, adequately addressing all the identified findings and concerns.

**FHI 360 Response to Finding #2022-01: Unsupported Labor Costs for Sub-awardee.**

FHI 360 reached out to its subawardee regarding finding 2022-01 and recommendation related to *Unsupported Labor Costs*.

The subawardee respectfully disagrees with the finding and contends that the information presented under the "Cause" is inaccurate and is not how the subawardee determines how much salary is charged to sponsored awards. Payroll distributions are allocated to chartfield strings based on the % of time an employee works on each associated activity. Those distributions are charged to each chartfield string biweekly and recorded to the subawardee's General Ledger, and subsequently invoiced to the sponsor. Any adjustments made to the payroll distributions result in corresponding credits or debits posted in the General Ledger and it is included in the subsequent invoice. In March 2023, salary distribution reports were provided to the auditors for all the individuals with salary on the sponsored award. These reports were carefully reviewed and cross-checked against the effort statements submitted to ensure that the charged amounts on the sponsored award were accurately supported and accounted for. If further information is required to verify the charged amounts, FHI 360 and the subawardee are ready to provide it upon request.



**FHI 360 Response to Finding #2022-02: Incorrect Indirect Costs Rates**

FHI 360 respectfully disagrees with this finding and qualification of this condition as an internal control deficiency or non-compliance. As part of FHI 360's end of year closing process and in compliance with Generally Accepted Accounting Principles (GAAP), indirect rates are set to actual rates for revenue recognition purposes. Closed-year revenue at actual rates is then reflected in our project status reports, and in the event of a credit to the client, FHI 360 returns the difference between the provisional and actual rates to the United States Government (USG). This approach ensures funding availability for program activities and prevents the funding from being unused or being held in the accounts indefinitely, and possibly until after the end of the project, until the rates are finalized with the Negotiated Indirect Cost Rate Agreement (NICRA) Office. The current, active, and non-closed fiscal year always uses the provisional rates for revenue recognition and reporting purposes.

2 CFR 200 Subpart E § 200.414 Indirect (F&A) costs establishes that all Federal awarding agencies are required to accept negotiated rates. While the rates can be considered ceilings until amended, the section does not obligate recipients to bid or invoice at those rates. Section § 200.306 (c) Cost sharing or matching implies that an organization has the flexibility to recover less than the negotiated rate. It defines: "*Unrecovered indirect cost means the difference between the amount charged to the Federal award, and the amount which could have been charged to the Federal award under the non-Federal entity's approved negotiated indirect cost rate*".

FHI 360 understands that it is acceptable to invoice and report up to the provisional rates but choose to invoice and report based on the lower actual rates. This established practice is compliant with U.S. GAAP, is beneficial to the USG and its programs, and does not violate any federal regulations.

**FHI 360 Response to Finding #2022-03: Lack of Competitive Bidding**

FHI 360 acknowledges the recommendation. FHI 360 updated its existing Purchasing Guidance and Directives, effective March 13, 2023, with specific reference to exempt security services from public advertising requirements, due to the sensitive nature of the work. A copy of the updated guidance is available upon request.



## FAMILY HEALTH INTERNATIONAL (FHI 360)

Audit of the Special Purpose Financial Statement  
For Cooperative Agreement No. 72030620CA00008  
Advancing Higher Education for Afghanistan Development (AHEAD)

**Auditor's Rebuttal to the FHI 360's Response to Findings**

For the period August 5, 2020, through June 30, 2022

FHI 360 disagreed with Findings 2022-01 and 2022-02 and agreed with Finding 2022-03. We have **reviewed management's response for its disagreements and provide the following rebuttals to the disagreements for Findings 2022-01 and 2022-02.**

Finding 2022-01: Unsupported Labor Costs for Sub-awardee

FHI 360 disagreed with this finding indicating that the sub-awardee contends that the cause of the finding is inaccurate. The sub-awardee indicates that it allocates payroll biweekly based on the percent of time an employee works on an activity. Adjustments to this time are made in the subsequent invoices to FHI 360. We agree that the sub-awardee allocates time on a biweekly basis and have no issue with this process. The issue is that we recalculated the allocation of salaries using information from effort statements, quarterly invoice reports, and annual salary rates and determined that the sub-awardee overbilled FHI 360, which in turn resulted in an overbilling to the U.S. Government. No documentation was provided to support the overbilled labor costs. As such, this finding remains unchanged.

Finding 2022-02: Incorrect Indirect Costs Rates

FHI 360 disagreed with this finding indicating that it is acceptable to invoice at less than the approved indirect cost rates. We agree that a non-Federal entity can charge indirect costs at a rate less than the rate identified in the NICRA. Because of this, no costs were questioned. However, the Cooperative Agreement indicates indirect costs are to be charged in accordance with the NICRA. FHI 360 did eventually adjust its indirect costs rates to agree to the NICRA. A lack of adequate internal controls resulted in the delay in the adjustment to the current indirect cost rates. As such, this finding remains unchanged.

## 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](http://www.sigar.mil)). SIGAR posts all publicly 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](http://www.sigar.mil/fraud)
- Email: [sigar.pentagon.inv.mbx.hotline@mail.mil](mailto:sigar.pentagon.inv.mbx.hotline@mail.mil)
- Phone International: +1-866-329-8893
- Phone DSN International: 312-664-0378
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