



## MEMORANDUM

**DATE:** March 14, 2018

**TO:** USAID/Ethiopia, Mission Director, Leslie Reed

**FROM:** Regional Inspector General/Pretoria, John Vernon /s/

**SUBJECT:** Audit of USAID Resources Managed by Stand for Vulnerable Organization in Ethiopia Under Cooperative Agreement AID-663-A-15-00005, January 1 to December 31, 2016 (Report No. 4-663-18-060-R)

This memorandum transmits the final audit report on USAID resources managed by Stand for Vulnerable Organization (SVO) under cooperative agreement AID-663-A-15-00005. SVO contracted with the independent certified public accounting firm of Tesfaye Teferi & Co, Addis Ababa, Ethiopia to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients<sup>1</sup>.

The audit firm states that it performed its audit in accordance with generally accepted government auditing standards (GAGAS), except that the audit firm did not have continuing professional education and external quality control review programs that fully satisfied the requirements set forth in GAGAS. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on SVO's fund accountability statement, the effectiveness of its internal control; or its compliance with the award, laws and regulations<sup>2</sup>.

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<sup>1</sup> On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and contractors as a management function. This contracted audit, however, was initiated before that date and follows the Guidelines.

<sup>2</sup> We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to: (1) express an opinion on whether the fund accountability statement as of December 31, 2016, was presented fairly, in all material respects; (2) evaluate SVO's internal control structure related to USAID-funded programs; (3) determine whether SVO complied, in all material respects, with agreement terms and applicable laws and regulations related to USAID funded program; (4) determine whether cost-sharing contributions were provided and accounted for by SVO in accordance with the terms of the agreement; (5) conduct an audit on indirect cost rate; and (6) determine whether SVO has taken adequate corrective actions on recommendations in prior audit reports.

To answer the audit objectives, Tesfaye Teferi & Co (1) audited the fund accountability statement for the award including the budgeted amounts by category and major items and the revenues received from USAID for the period covered by the audit and the costs reported by SVO as incurred from January 1, 2016, to December 31, 2016; (2) evaluated the control environment, the adequacy of the accounting systems, and control procedures that pertain to SVO's ability to report financial data consistent with the assertions embodied in each account of the fund accountability statement; (3) identified the award terms and pertinent laws and regulations and determined which of those, if not observed, could have a direct and material effect on the fund accountability statement; (4) reviewed the cost sharing schedule to determine whether it was fairly presented; (5) determined that the review of the indirect cost rate was not applicable; and (6) determined the status of prior period recommendation was not applicable. SVO spent \$802,955 in USAID funds during the audited period.

The audit firm concluded the fund accountability statement presented fairly, in all material respects, the funds received and costs incurred for SVO for the period under review, except for one significant deficiency in internal control. In addition, the auditors reported \$4,510 of VAT to be refunded to the project but made no recommendation to verify the outstanding amount is reimbursed to the project. We made Recommendation I below to address the amount receivable from local tax authorities.

To address the issues identified in the report, we recommend that USAID/Ethiopia:

**Recommendation 1.** Determine the allowability of \$4,510 in ineligible questioned costs identified on page 16 of the audit report and recover any amount that is unallowable.

**Recommendation 2.** Verify that Stand for Vulnerable Organization corrects the significant deficiency in internal control detailed on page 19 of the audit report.

We ask that you provide written notification of actions planned or taken to reach management decision. We appreciate the assistance extended during the engagement.

OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5

U.S.C. 552(b)(4) (“commercial or financial information obtained from a person that is privileged or confidential”).