MEMORANDUM

DATE: March 28, 2018

TO: USAID/India Mission Director, Mark A. White

FROM: Acting Regional Inspector General/Manila, Emily Gardiner /s/

SUBJECT: Financial Audit of the Feed the Future India Africa Innovation Transfer Platform Project, Managed by Ashwattha Advisors Private Limited, Cooperative Agreement AID-386-A-14-00002, April 1, 2016, to March 31, 2017 (5-386-18-015-R)

This memorandum transmits the audit report on the Feed the Future India Africa Innovation Transfer Platform Project. Ashwattha Advisors Private Limited (AAPL) contracted the independent certified public accounting firm of P. K. Chopra & Co. to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.[1]

P. K. Chopra & Co. stated that it performed its audit in accordance with GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. P. K. Chopra & Co. is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the recipient's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.[2]

The audit objectives were to (1) express an opinion on whether AAPL's fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate AAPL's internal controls; (3) determine whether AAPL complied with agreement terms (including cost-sharing) and applicable laws and regulations; and (4) determine if AAPL has taken corrective actions on prior audit recommendations. To answer the audit objectives, P. K.

[1] On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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.

[2] 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.

Chopra & Co. reviewed program documents and procedures; examined the fund accountability statement including revenues received from USAID and costs incurred during the period; reviewed and documented the internal control systems; and tested compliance with the award requirements and applicable laws and regulations. The audit covered program revenues and costs incurred of $1,282,180 and $1,638,272, respectively, from April 1, 2016, to March 31, 2017.

P. K. Chopra & Co. concluded that, except for the effects of the questioned costs totaling $714,045[3] ($713,989[4] ineligible, $56 unsupported), the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the agreement for the period audited. The questioned costs pertained to (a) unallowable indirect cost and related service tax charged by a subrecipient on expenses it incurred on behalf of the recipient—$1,367 (QC Finding 1, page 38); (b) subrecipient's expenses included by the recipient in the FAS but for which invoices were received from subrecipient and submitted to USAID only after the audit period—$129,605 (QC Finding 2, page 39); (c) subrecipients' expenses claimed by the recipient from USAID but not reimbursed to subrecipients—$583,017 (QC Findings 3, 4, 5 and 6 on pages 40-47); and (d) airfare cost incurred by a subrecipient that was not supported by a boarding pass—$56 (QC Finding 7, page 47). Based on our review of the audit firm's description of the issues, we consider item (c), which was not reported as a finding in either the report of internal control or report on compliance, to be a significant deficiency in internal control; hence, we are making a recommendation for corrective action (see Recommendation 4 below).

The audit firm identified 31 material weaknesses in internal control relating to multiple issues including questioned cost items (a) and (d) mentioned in above paragraph, subrecipient charges of $777 (INR51,998) for a flight cancellation and change of travel date without approved documentation and/or a reason for the change (IC Finding 3, page 58), and salary increments given to the recipient's employees without approval documents (IC Finding 23, page 76). Based on the description of the findings, the $777 charges for the flight cancellation and change should have been considered as questioned costs in the FAS and the salary increments without approval documents should have been quantified and also included as questioned costs in the FAS. Accordingly, we are including the $777 in unsupported questioned costs related to the flight cancellation and change in Recommendation 1 and the costs related to the increments without approval in Recommendation 2 below.

The audit firm also identified 24 material instances of noncompliance, 17 of which were also reported as material weaknesses in internal control; thus, we are not making a separate recommendation on those noncompliance issues. One finding was associated with questioned cost item (b) mentioned on page 2 (NC Finding 1, page 79). The remaining 6 findings pertained to (a) timesheets not indicating time spent per activity (NC Finding 2, page 79); (b) errors in the subagreement modification (NC Finding 6, page 81); (c) salary payments that were not fully supported (NC Finding 11, page 85); (d) subagreement reporting requirements not fully

[3] Rounding-off difference of $1.

[4] The amount presented in the FAS was $713,953. However, per the schedule of questioned costs, the correct amount is $713,989.

complied with (NC Finding 12F, page 88); (e) noncompliance with service tax laws (NC Finding 16, page 92); and (f) not submitting monthly reports in a timely manner (NC Finding 17, page 95). The associated costs for item (c) should have been quantified and included as questioned costs (ineligible) in the FAS. Accordingly, we are including this in Recommendation 2 below.

In addition, in its management letter (pages 99–100), the audit firm identified three other issues. Based on our review of the audit firm's description of the issues, we consider two of the issues to be significant deficiencies in internal control and the third one to be a material instance of noncompliance; hence, we are making a recommendation for corrective action. The significant deficiencies in internal control pertained to (a) not accounting for and paying interest on delayed payments to subrecipients (item 1, page 99); and (b) maintaining multiple projects' funds in a single bank account (item 2, page 99); while the material instance of noncompliance related to service taxes paid on project expenses(item 3, page 100). The service taxes should have been quantified and included as questioned costs in the FAS. Accordingly, we are also including this in Recommendation 2 below.

Regarding cost-sharing, the audit firm reported that, except for the cost of the overcharged volunteer consultants' time ($47,056, ineligible), nothing came to its attention that caused it to believe that the recipient did not fairly present the cost-sharing schedule. We consider this issue, which was not associated with any of the findings in the reports on internal control and compliance, to be a material instance of noncompliance; hence, we are including this in Recommendation 5 below.

Finally, the audit firm reported that AAPL did not have a USAID-authorized provisional indirect cost rate. Further, based on our review of the status of prior audit recommendations resulting from the recipient-contracted audit report, all eight prior audit recommendations had been satisfactorily addressed.

During our desk review, we noted several issues which the audit firm will need to address in future audit reports. We presented these issues in a memorandum to the controller dated March 28, 2018.

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

Recommendation 1: Determine the allowability of $714,822 in questioned costs ($713,989 ineligible, and $56 plus $777 unsupported) on pages 27 and 58 of the audit report and further detailed on page 2 of this memorandum, and recover any amount that is unallowable.

Recommendation 2: Establish the amounts of the salary increments without approval documents, salary payments that were not fully supported, and service tax paid on project expenses as discussed on pages 2 and 3 of this memorandum and further detailed in IC Finding 23 on page 76, NC Finding 11 on page 85, and item 3 on page 100 of the management letter, respectively; determine allowability and recover, as appropriate.

Recommendation 3: Determine the allowability of and recover, as appropriate, the questioned cost-sharing contributions of $47,056 (ineligible) identified in the Cost-Sharing Schedule on page 51 and further detailed in Note 3 to the Cost-Sharing Schedule on pages 52-54 of the report.

Recommendation 4: Verify that the Ashwattha Advisors Private Limited corrects the thirty-one material weaknesses (IC Findings 1–23 on pages 57–76 of the audit report) and six significant deficiencies in internal control (QC Findings 3–6 on pages 40–47 of the audit report and Items 1–2 on page 99 of the management letter).

Recommendation 5: Verify that the Ashwattha Advisors Private Limited corrects the nine material instances of noncompliance (NC Findings 1, 2, 6, 11, 12F, 16 and 17 on pages 79–82, 85, 88, and 92–98 of the audit report, Note 3 to the Cost-Sharing Schedule on pages 52–54 of the audit report and item 3 on page 100 of the management letter).

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

The 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").

Attachment: a/s