



MEMORANDUM

DATE: February 14, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Regional Inspector General/Manila, Matthew Rathgeber /s/

SUBJECT: Financial Audit of the U.S.-Pakistan Center for Advanced Studies in Agriculture and Food Security Program in Pakistan Managed by the University of Agriculture, Faisalabad, Cooperative Agreement AID-391-A-15-00002, July 1, 2015, to June 30, 2016 (5-391-18-011-R)

This memorandum transmits the final audit report on the U.S.-Pakistan Center for Advanced Studies in Agriculture and Food Security Program in Pakistan. The University of Agriculture, Faisalabad (UAF), contracted the independent certified public accounting firm of Riaz Ahmad & Company to conduct the audit. The contract required the audit firm to perform the audit in accordance with generally accepted government auditing standards (GAGAS).

Riaz Ahmad & Company 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. Riaz Ahmad & Company 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.¹

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

¹ 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.

applicable laws and regulations. The audit covered program revenues and costs of \$2,157,163 and \$2,232,784, respectively, from July 1, 2015, to June 30, 2016.

Riaz Ahmad & Company concluded that, except for the effects of the questioned costs totaling \$75 (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 unsupported travel expenses (Finding No. 5.1.1). Since the amount of questioned costs is considered not significant, we are not making any recommendation on these questioned costs. However, we suggest that USAID/Pakistan determine the allowability of the \$75 in questioned costs and recover any amount determined to be unallowable.

The audit firm identified one significant deficiency in internal control involving the capitalization policy of fixed assets (Finding No. 5.3.1). The audit firm also identified five material instances of noncompliance. One finding was associated with the unsupported questioned costs identified in the fund accountability statement; while the other four findings pertained to (1) the budgeted amount for equipment remained unused after 30 percent of the project time has elapsed (Finding No. 5.2.1), (2) equal participation of women in the workforce not ensured (Finding No. 5.2.2), (3) enterprise resource planning module not completely implemented (Finding No. 5.2.3), and (4) stipend to scholarship holders paid late (Finding No. 5.2.4).

In addition, in its management letter (Section 6, pages 25–35), the audit firm identified 12 other internal control matters or nonmaterial instances of noncompliance. Based on our review of the audit firm's descriptions of the issues, we consider one issue to be a significant deficiency, one issue to be a material weakness in internal control, and three issues to be material instances of noncompliance; hence, we are making a recommendation for corrective action. The significant deficiency and the material weakness in internal control pertained to (1) incomplete personnel files (Observation No. 6.3) and (2) deductions of benefits from salaries not clarified in the employment contracts (Observation No. 6.12), respectively. The material instances of noncompliance pertained to (1) fixed asset register and store register not properly maintained (Observation No. 6.1), (2) missing documentation and information necessary for the grant of scholarship (Observation No. 6.2), and (3) USAID approval for international travel obtained late (Observation No. 6.8).

Finally, the audit firm reported that (1) the agreement did not require cost-sharing contributions and (2) UAF 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 and USAID pre-award assessment, 6 of the 17 prior audit recommendations had not been satisfactorily addressed and were again reported in the current period audit report or management letter, and are covered by Recommendation Nos. 1 and 2 below.

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 February 14, 2018.

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

Recommendation No. 1: Verify that the University of Agriculture, Faisalabad corrects the one material weakness (Observation No. 6.12 on page 35 of the management letter) and two significant deficiencies in internal control (Finding No. 5.3.1 on page 24 of the audit report and Observation No. 6.3 on page 27 of the management letter).

Recommendation No. 2: Verify that the University of Agriculture, Faisalabad corrects the eight material instances of noncompliance (Finding Nos. 5.1.1 and 5.2.1–5.2.4 on pages 19–23 of the audit report and Observation Nos. 6.1, 6.2, and 6.8 on pages 25, 26, and 31 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

cc: Controller, USAID/Pakistan
Office of Acquisition and Assistance, Cost Audit and Support Division
Executive Secretariat
Audit Performance and Compliance Division
OIG Deputy Inspector General
OIG Assistant Inspector General for Audit
OIG Principal Deputy Assistant Inspector General for Audit
OIG Cognizant Deputy Assistant Inspector General for Audit
OIG Investigations
OIG Audit’s Audit Support Division