



MEMORANDUM

DATE: August 7, 2018

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

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

SUBJECT: Financial Audit of the Tuberculosis Health Action Learning Initiative Project in India Managed by World Health Partners, Cooperative Agreement AID-386-A-16-00004, April 1, 2016, to March 31, 2017 (5-386-18-028-R)

This memorandum transmits the final audit report on the Tuberculosis Health Action Learning Initiative Project in India. The World Health Partners (WHP) contracted the independent certified public accounting firm of Thakur, Vaidyanath Aiyar & 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

Thakur, Vaidyanath Aiyar & 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. Thakur, Vaidyanath Aiyar & 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 including cost-sharing contributions.²

The audit objectives were to (1) express an opinion on whether WHP fund accountability statement (FAS) for the period audited was presented fairly, in all material respects; (2) evaluate WHP's internal controls; and (3) determine whether WHP complied with agreement terms and applicable laws and regulations (including cost-sharing contributions). To answer the audit

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. The mission, however, asked the auditors in its contract to follow the Guidelines, and this contracted audit follows those Guidelines.

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.

objectives, Thakur, Vaidyanath Aiyar & Co. reviewed project documents and procedures; examined the fund accountability statement; reviewed and documented the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. The audit covered project revenues and costs of \$503,374 and \$847,507, respectively, from April 1, 2016, to March 31, 2017.

Thakur, Vaidyanath Aiyar & Co. concluded that, except for the effects of the questioned costs totaling \$4,820 (\$4,717 ineligible and \$103 unsupported), the fund accountability statement presented fairly, in all material respects, project revenues, costs incurred, and commodities directly procured by USAID under the agreement for the period audited. The questioned costs pertained to (1) WHP's unremitted interest income on project funds—\$802 (ineligible, Finding 1 on pages 27-28); (2) WHP and subrecipient's value-added tax on purchases charged to the project—\$1,157 (ineligible, Finding 2 on pages 28-29); (3) WHP's excess payment on housekeeping services—\$23 (ineligible, Finding 3 on pages 29-30); and (4) excess expenses charged by the subrecipients—totaling \$2,838 (\$2,735 ineligible, Findings 4 and 5 on pages 30-32; \$103 unsupported, Finding 6 on pages 32-33).

In the detailed finding section on internal control, the audit firm identified eight internal control issues. However, the report on internal control included only seven issues and it did not clearly determine whether these issues are significant deficiencies or material weaknesses in internal control. Based on the audit firm's description of the issues, we consider all eight issues to be material weaknesses in internal control. Five of eight issues are associated with the questioned costs in the FAS; the three remaining issues (Findings 5, 6, and 8 on pages 52-55) pertained to expenses on unbudgeted laptops purchased without prior USAID approval, food expenses in excess of confirmed participants without justification, and airfare costs on cancelled flights without documentation of approval or justification. In addition, the costs associated with these three findings (totaling INR 233,033 or \$3,446) should have been reported as questioned costs in the FAS. Therefore, we are making a recommendation to determine allowability of \$3,446 in questioned costs (unsupported).

In addition, the questioned costs pertaining to WHP's unremitted interest income (item 1 above) was neither presented in the report on internal control nor in the report on compliance. Based on our review of the audit firm's description of the issue, we consider it to be a material instance of noncompliance; hence, we are including it in our recommendation for corrective action (see Recommendation 4 below).

The audit firm also identified five material instances of noncompliance, three of which are associated with the same questioned costs reported as internal control findings; thus we are not making a separate recommendation on these three material noncompliance findings. The remaining two issues pertained to WHP and its subrecipients' noncompliance with statutory requirement on registering and deducting professional tax and insurance contributions from employees' salaries (Findings 2 and 3 on pages 43-44).

Regarding the review of cost-sharing contributions which is required under the project, the audit firm reported that the recipient contributed total cost-sharing contributions of \$40,649

during the period audited. The audit firm did not report any questioned costs related to these contributions.

Finally, the audit firm reported that (1) as approved in the agreement, a de minimis rate of 10 percent of modified total direct costs can be charged to the project and (2) this is the first audit of the project.

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 August 7, 2018.

To address the issue identified in the report, we recommend that USAID/India:

Recommendation 1. Determine the allowability of \$4,820 in questioned costs (\$4,717 ineligible and \$103 unsupported) identified in the Fund Accountability Statement on page 20 and detailed in Findings 1-6 on pages 27-33 of the audit report, and recover any amount that is unallowable.

Recommendation 2. Determine the allowability of \$3,446 in questioned costs (unsupported) as discussed on page 2 of this memorandum and detailed in Findings 5, 6, and 8 on pages 52–55 of the audit report, and recover any amount that is unallowable.

Recommendation 3. Verify that the World Health Partners corrects the eight material weaknesses in internal control discussed on page 2 of this memorandum and detailed in Findings 1-8 on pages 49-55 of the audit report.

Recommendation 4. Verify that the World Health Partners corrects the three material instances of noncompliance as discussed on page 2 of this memorandum and detailed in Findings 2 and 3 on pages 43-44 of the audit report, and Questioned Costs Finding 1 on pages 27-28 of the audit report.

We ask that you provide written notification of actions planned or taken to reach a management decision. 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