MEMORANDUM

DATE: August 3, 2018

TO: USAID/Pakistan Mission Director, Jerry Bisson

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

SUBJECT: Closeout Audit of the Family Planning and Reproductive Health Services Project in Pakistan Managed by Marie Stopes Society, Cooperative Agreement AID-391-A-13-00007, January 1 to December 31, 2016 (5-391-18-027-R)

This memorandum transmits the final audit report on the Family Planning and Reproductive Health Services Project in Pakistan. The Marie Stopes Society (MSS) contracted the independent certified public accounting firm of A.F. Ferguson & 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]

A.F. Ferguson & 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. A.F. Ferguson & 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 MSS fund accountability statement for the period audited was presented fairly, in all material respects; (2) evaluate MSS internal controls; (3) determine whether MSS complied with agreement terms and applicable laws and regulations; and (4) determine whether MSS has taken corrective actions on prior audit report recommendations. To answer the audit objectives, A.F. Ferguson & Co. reviewed project documents and procedures; examined the fund accountability statement; reviewed and

[1] On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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. This contracted audit, however, was initiated before that date and follows the 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.

documented the internal control systems; and tested compliance with agreement terms and applicable laws and regulations. The audit covered project revenues and costs of $6,865,202 and $7,017,228, respectively, from January 1 to December 31, 2016.

A.F. Ferguson & Co. concluded that, except for the effects of the questioned revenues and costs of $91,509 and $366,353, respectively (totaling $457,862; $446,869 ineligible and $10,993 unsupported), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the agreement for the period audited. The questioned revenues of $91,509 pertained to interest income and insurance claim amounting to $3,413 and $88,096, respectively, not remitted to USAID. The questioned costs of $366,353 pertained to (1) gratuity costs not paid to employees, not supported, or related to services rendered before the start of the project—$94,070; (2) leave encashment costs not in accordance with the provisions of the Human Resources Manual—$52,745; (3) advance rent paid not recovered after termination of rental agreements following the closure of the project—$47,149; (4) insurance claim not adequately covered—$154,259; and (5) required penalty that should have been charged to the contractor due to the delay in submitting the deliverables—$18,130.

Concerning internal control, the audit firm identified four significant deficiencies in internal control, one of which is associated with the questioned costs in the fund accountability statement and the other three involving MSS's (1) difference of costs reported between the final liquidation report submitted to USAID and the fund accountability statement, (2) inadequate controls over physical count of medical supplies and updating of records, and (3) inadequate controls over maintenance of personnel files. The audit firm also identified six material instances of noncompliance, five of which are associated with the questioned costs in the fund accountability statement; the other one involving MSS's late payment of withholding taxes to the Government of Pakistan. However, since according to the mission, it does not have other existing agreements with MSS or plan to have other direct agreements with MSS, we are not making a procedural recommendation on all of these findings.

The mission confirmed that MSS did not have a USAID-authorized provisional indirect cost rate and cost-sharing requirement in the agreement. Further, based on our review of the status of audit recommendations from the prior recipient-contracted audit report, three of the six recommendations had not been satisfactorily addressed and were again reported in the current period audit report.

Further, in accordance with the requirements for closeout audits (Section IV.B.12 of the audit contract statement of work), the audit firm presented a final inventory of assets purchased with USAID funds totaling $924,138. The audit firm reported that these assets have been disposed of in accordance with the disposition plan. Also, the fund accountability statement showed an excess of revenues over costs of $113,887. However, we determined that $91,509 of the $113,887 in excess cash pertained to the questioned revenues in the fund accountability statement (interest income and insurance claim not remitted to USAID). Thus, we are making a recommendation for the determination of allowability and recovery, if appropriate, of the excess cash of $22,378 only ($113,887 less $91,509).

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 3, 2018.

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

Recommendation 1. Determine the allowability of $91,509 in questioned revenues and $366,353 in questioned costs (totaling $457,862; $446,869 ineligible and $10,993 unsupported) on page 13 and further detailed in Findings 6.2.iv and 7.2.i-v on pages 27-28, and 31–42 of the report.

Recommendation 2. Determine the allowability of the excess of revenues over costs of $22,378 discussed on page 2 of this memorandum, and recover any amount that is unallowable.

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