



MEMORANDUM

DATE: February 4, 2019

TO: USAID/Pakistan Mission Director, Jerry Bisson

FROM: Office of Inspector General/Asia Regional Office Audit Director,
Matthew Rathgeber /s/

SUBJECT: Financial Audit of A.A. Associates Under Multiple USAID Awards in Pakistan,
For the Periods Ended January 31, 2017, and June 30, 2017 (5-391-19-011-R)

This memorandum transmits the final audit report of A.A. Associates under multiple USAID awards. A.A. Associates contracted the independent certified public accounting firm of Aslam Malik & Co. to conduct the audit. The contract required the audit firm to perform the audit in accordance with U.S. generally accepted government auditing standards (GAGAS) and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.¹

Aslam Malik & Co. stated that it performed its audit in accordance with U.S. GAGAS except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. Aslam Malik & Co. is responsible for the enclosed auditor's report and the conclusions expressed in it. We do not express an opinion on the contractor'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 A.A. Associates' fund accountability statement for the periods audited was presented fairly, in all material respects; (2) evaluate A.A. Associates' internal controls; and (3) determine whether A.A. Associates complied with contract terms and applicable laws and regulations. To answer the audit objectives, Aslam Malik & Co. examined the fund accountability statement and supporting

¹ On June 30, 2017, USAID OIG rescinded its Guidelines for Financial Audits Contracted by Foreign Recipients, recognizing the Agency's role to impose requirements on its implementing partners and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

documentation; reviewed and documented A.A. Associates internal control systems; and tested compliance with contract terms and applicable laws and regulations. The audit covered project revenues and costs of \$2,113,457 and \$2,317,731,³ respectively, for the periods audited.

Aslam Malik & Co. concluded that, except for the effects of the questioned costs totaling \$16,056 (ineligible), the fund accountability statement presented fairly, in all material respects, project revenues and costs incurred under the contract for the periods audited. The questioned costs pertained to actual number of days worked charged to USAID that were more than the work days approved by USAID for each designation under MSPJ.

The audit firm did not identify any significant deficiencies or material weaknesses in internal control. However, it identified one material instance of noncompliance related to the questioned costs reported in the fund accountability statement.

In addition, in its management letter, the audit firm identified five other internal control matters. Based on our review of the audit firm's description of each issue, we consider two issues to be material instances of noncompliance and one issue to be a significant deficiency in internal control. The two material instances of noncompliance pertained to excess days charged to USAID (Finding 3.1) and payments above PKR10,000⁴ paid through cash instead of checks (Finding 4.2). The significant deficiency in internal control pertained to petroleum, oil and lubricant costs charged to vehicle rentals (Finding 3.2). Finding 3.1 is associated with the same questioned costs reported as a material instance of noncompliance; thus we are not making a separate recommendation. Thus, we are including in our recommendation for corrective actions Findings 4.2 and 3.2 only (see Recommendations 2 and 3 below).

Furthermore, Aslam Malik & Co. reported that there were (1) no cost-sharing requirements on any of the projects and (2) no outstanding prior audit recommendations. In response to our inquiry, the mission confirmed that A.A. Associates did not have a USAID-authorized provisional indirect cost rate.

In accordance with Section IV.B.12 of the audit contract statement of work, the audit firm presented final inventory of assets purchased with USAID funds under MSPJ. However, it did not report whether or not assets procured with project funds were disposed of in accordance with the terms of the contract. Accordingly, we suggest that the mission ensure that the contractor has disposed of the assets according to the terms of the contract.

³ The audit covers three task orders under Contract AID-391-1-11-00003: Closeout audit of task order AID-391-TO-12-00007 (Municipal Service Program Jacobabad [MSPJ] for the period from July 1, 2016, to January 31, 2017) and first audits of task orders AID-391-TO-16-00007 (Municipal Service Program Sindh [SMSP] for the period from January 2, 2017, to June 30, 2017) and task orders AID-391-TO-16-00003 (Monitoring, Inspection, Milestone Certification and Design Review [MIMDR] for the period from June 21, 2016, to June 30, 2017).

⁴ PKR stands for Pakistani Rupee.

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 4, 2019.

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

Recommendation 1. Determine the allowability of \$16,056 in questioned costs (ineligible) identified in the fund accountability statement on page 15, and further detailed on pages 11–12 of the audit report, and recover any amount that is unallowable.

Recommendation 2. Verify that the A.A. Associates corrects the two material instances of noncompliance identified in the report on compliance on pages 26–27 and detailed on pages 11–12 of the audit report (and also presented as Finding 3.1 on pages 47–48), and as discussed on page 2 of this memorandum and detailed in Finding 4.2 on page 53 of the audit report.

Recommendation 3. Verify that the A.A. Associates corrects the significant deficiency in internal control discussed on page 2 of this memorandum and detailed in Finding 3.2 on page 49 of the audit report.

We ask that you provide written notification of actions planned or taken to reach management decisions. 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”).

Attachment: a/s