



MEMORANDUM

DATE: July 24, 2019

TO: USAID/Pakistan Acting Mission Director, Timothy Donnay

FROM: USAID OIG Asia Regional Office Acting Audit Director, Emily Gardiner /s/

SUBJECT: Financial Audit of Aman Institute for Vocational Training's Management of the Karachi Youth Workforce Development Project in Pakistan, Cooperative Agreement AID-391-A-15-00005, July 1, 2016 to June 30, 2017 (5-391-19-048-R)

This memorandum transmits the final audit report on the Karachi Youth Workforce Development Project. The Aman Institute for Vocational Training (AIVT) contracted with 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 and USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients.¹

The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards except that it did not fully comply with the requirements on having a continuing professional education program and external quality control reviews. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on AIVT's fund accountability statement; the effectiveness of its internal control; or its compliance with the award, laws, and regulations.²

¹ On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and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. USAID/Pakistan adopted the entire OIG rescinded Guidelines and named them USAID Guidelines (applicable for USAID/Pakistan audits), which were to be used until the new USAID Guidance is developed and published. The audit contract referred to these same guidelines as USAID Pakistan Guidelines for Financial Audits Contracted by Foreign Recipients (USAID 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.

The audit objectives were to (1) express an opinion on whether the fund accountability statement for the period audited, was presented fairly, in all material respects; (2) evaluate AIVT's internal controls; (3) determine whether AIVT complied with award terms and applicable laws and regulations; and (4) determine whether AIVT has taken corrective actions on prior audit report recommendations. To answer the audit objectives, the audit firm examined the fund accountability statement and supporting documentation; reviewed AIVT's internal control systems; tested compliance with agreement terms and applicable laws and regulations; and assessed status of prior audit recommendations. The audit covered project revenues and costs of \$1,893,347 and \$1,938,377, respectively, from July 1, 2016, to June 30, 2017.

The audit firm concluded that the fund accountability statement presented fairly, in all material respects, program revenues and costs incurred under the award for the period audited except for \$154,056 in ineligible questioned costs. The ineligible questioned costs pertained to (1) excess advance and interest income not refunded to USAID – \$553; (2) unauthorized benefit paid to employees – \$33,911; (3) excess gratuity charged to USAID – \$2,457; (4) sales tax charged to USAID without submitting exemption requests – \$1,810; (5) excess depreciation charged to USAID – \$88,628; (6) transportation costs claimed from students, yet charged to USAID – \$14,919; (7) procurement of furniture and equipment without prior USAID approval – \$11,714; (8) examination fee claimed from a student and charged to USAID – \$64.

The audit identified four material weaknesses in internal control; two of which were related to the questioned costs and the other two were related to AIVT not having adequate controls over the attendance of guards and unclear policy on the capitalization of assets.

The audit firm also identified twelve material instances of noncompliance, six of which are associated with the questioned costs in the fund accountability statement; the other six were related to AIVT's not complying with: (1) reporting requirements for submission of reports including intellectual work report and security reports, (2) policies and procedures related to human resources, safety, and security, and (3) requirements to include standard provisions in subcontracts and subagreements.

During our desk review, we noted several minor issues which the audit firm will need to address in future audit reports. We presented these issues in a memo to the controller, dated July 24, 2019.

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

Recommendation 1. Determine the allowability of \$154,056 in ineligible questioned costs identified on page 12 and detailed on pages 16 through 31 of the audit report and recover any amount that is unallowable.

Recommendation 2. Verify that Aman Institute for Vocational Training corrects the four material weaknesses in internal control detailed on pages 37 through 43 of the audit report.

Recommendation 3. Verify that Aman Institute for Vocational Training corrects the twelve instances of material noncompliance detailed on pages 45 through 63 of the audit report.

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