



MEMORANDUM

DATE: July 22, 2021

TO: USAID/Pakistan Mission Director, Julie A. Koenen

FROM: USAID OIG Asia Regional Office Deputy Assistant Inspector General for Audit, Christine M. Byrne /s/

SUBJECT: Financial Audit of Local Costs Incurred Under the Power Distribution Program in Pakistan Managed by International Resources Group, Contract AID-EPP-I-13-03-00006, September 16, 2010, to November 7, 2014 (5-391-21-002-N)

This memorandum transmits the final audit report covering local costs incurred under the Power Distribution Program in Pakistan managed by International Resources Group (IRG).¹ USAID/Pakistan contracted with the independent certified public accounting firm of Yousuf Adil to conduct the audit. The audit firm indicated that it was engaged to perform the audit in accordance with generally accepted government auditing standards and USAID OIG Guidelines for Financial Audits Contracted by Foreign Recipients.² However, it did not fully comply with the requirements on having a continuing professional education program and quality control reviews. The audit firm also reported additional scope limitations. Specifically: (1) IRG did not provide a management representation letter, (2) for some expenditures totaling \$27,797,316, the audit firm performed only a limited scope review as agreed between USAID and IRG,³ (3) the audit firm identified questioned costs totaling \$7,994,935, and (4) the notes to the fund accountability statement (FAS) did not identify the closure of the Power Distribution Program on October 30, 2015, and its activities subsequent to the audit ending period. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an

¹ In January 2017, IRG was acquired by RTI International (<https://www.rti.org/news/rti-international-acquires-international-resources-group-irg>).

² On June 30, 2017, USAID OIG rescinded its "Guidelines for Financial Audits Contracted by Foreign Recipients," recognizing the Agency's role to impose requirements on its implementing partners and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 followed the guidelines.

³ The review was limited to the assessment of allocation for the following expenditures: overhead (\$2,322,562), general and administration (\$17,083,371), subcontract handling (\$1,727,532), and fixed fee (\$6,663,851).

opinion on IRG's FAS; the effectiveness of its internal control; or its compliance with the contract terms and applicable laws and regulations.⁴

The audit objectives were to (1) express an opinion on whether IRG's FAS for the period audited was presented fairly, in all material respects; (2) evaluate IRG's internal controls; (3) determine whether IRG complied with contract terms and applicable laws and regulations; and (4) assess whether IRG had taken adequate corrective actions on prior year audit recommendations. To answer the audit objectives, the audit firm reviewed program documents and procedures; examined the FAS and supporting documents; obtained an understanding of the internal control system and assessed its effectiveness; tested compliance with contract terms and applicable laws and regulations; and assessed the status of prior year audit recommendations. The audit firm also performed work to address the mission's concerns related to IRG's conflict of interest policy, procurement system, subcontractor's costs (contract costs against the proposal budget), legal costs, compliance with the guidelines for tax exemptions, and foreign exchange rate policy. The audit covered program revenues and costs each amounting to \$136,311,853 from September 16, 2010, to November 7, 2014.

The audit firm reported that it did not express an opinion on the FAS because it was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion as outlined in items 1-4 on page 1 of this memorandum. The identified questioned costs of \$7,994,935 (\$3,716,640 ineligible and \$4,278,295 unsupported) are summarized in Table 1.

Table 1. Summary of Questioned Costs Included in the FAS (in U.S. Dollars)

	Finding Description	Ineligible Costs	Unsupported Costs	Reference Finding & Page Nos.	
1	Expenditures paid from employees' personal bank accounts and related bank statements not available for verification		332,563	9.3a	37-38
2	Subcontract costs not adequately supported or supported with illegible documents		3,945,732	9.3b	39
3	Billed overseas allowance exceeded the general ledger balance	1,096		9.4	40
4	General sales tax on hotel bills and vehicles procured	141,524		9.5	41-42
5	Expenditures exceeded the approved budget	474,257		9.6	43
6	Ineligible advance payment to a subcontractor	2,717,508		9.7	44
7	Unaccounted commodities during physical verification	246,441		9.8	45
8	Subcontractors' labor rate higher than market rate and travel and other direct costs not considered allowable	135,814		9.9	46-47
	TOTAL	\$3,716,640	\$4,278,295		
	TOTAL QUESTIONED COSTS	\$7,994,935			

The audit firm identified seven material weaknesses in internal control, of which three are associated with the questioned costs in the FAS (Findings 11.1.2, 11.1.5, and 11.1.7). The audit

⁴ 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.

firm also identified four material instances of noncompliance, with one associated with the questioned costs reported in the FAS (Finding 13.4). Further, the audit firm identified 16 significant deficiencies in internal control. Also, in Section 14 of the audit report, the audit firm identified six other internal control matters. Finally, the auditors reported that prior year audit findings were resolved, except for unresolved items as noted.

In addition, three findings with monetary effects totaling \$3,357,910 should have been identified as questioned costs in the FAS, but were not. Accordingly, we are making a recommendation for the mission to determine the allowability and recovery, as appropriate, of these questioned costs. The details of the findings and the associated questioned costs are summarized in Table 2.

Table 2. Summary of Questioned Costs Related to Expenditures in the FAS (in U.S. Dollars)

Finding Description		Ineligible Costs	Unsupported Costs	Reference Finding & Page Nos.	
1	Lack of competitive bidding in three awarded subcontracts with a vendor	2,516,906		13.2	87
2	Vouchers not signed by signatories		271,602 ⁵	11.1.12	69
3	Subcontractors' invoices lacked the certification required by USAID Acquisition Regulation and subcontract provisions		569,402 ⁶	14.1.2	92-94
TOTAL		\$2,516,906	\$841,004		
TOTAL QUESTIONED COSTS		\$3,357,910			

There are several issues that the mission and the audit firm will need to address in future audit reports. We also have a suggestion to the mission. We provided these issues and suggestion in a memorandum to the controller dated July 22, 2021.

Since the award to the contractor has ended and USAID/Pakistan does not have any existing or planned awards with them or RTI International, we are not making any procedural recommendations. However, since the contractor is a U.S. organization, USAID/Pakistan may want to notify the Bureau for Management, Office of Acquisition and Assistance (M/OAA) about the procedural issues identified in case they may affect other USAID programs. To address the questioned cost issues identified in the report and discussed in this memorandum, we recommend that USAID/Pakistan:

Recommendation 1. Determine the allowability of \$7,994,935 (\$3,716,640 ineligible and \$4,278,295 unsupported) in questioned costs as detailed in Table 1 on page 2 of this memorandum and recover any amount that is unallowable.

⁵ Represents the total costs of Finding 11.1.12 of \$342,627 less the value of two Toyota Hilux vehicles (\$27,905 + \$27,905) that were physically verified per Annexure C and labor charges (\$15,215) that were questioned in Finding 14.1.2.

⁶ Represents the total costs of Finding 14.1.2 of \$712,520 less the value of the first five items in the listed findings of \$143,118 that were questioned in Finding 9.3a in Table 1 (for Subcontracts amount on page 37 of the report).

Recommendation 2. Determine the allowability of \$3,357,910 (\$2,516,906 ineligible and \$841,004 unsupported) in questioned costs as detailed in Table 2 on page 3 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.

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